BBVA Research

China Banking Monitor

2020

November 28, 2020

Creating Opportunities

Index

Main takeaways

Credit growth stabilized in October, reflecting that policy makers are gradually pulling back from the stimulus measures enacted amid the Covid-19 pandemic.

Bank assets growth accelerated to 10.7% in the first three quarters in 2020 , amid authorities' call to lend to the pandemic-hit economy.

Asset quality deteriorated in Q3 2020 on decade-high bad loan levels. Asset quality for smaller banks suffered pressure due to the higher NPL ratio and lower provision coverage ratio.

Banks' net profits tumbled on the rising provisions to guard against potential loan losses as banks have been placed at the front line of authorities effort to revive the economy in an economy weakened by the coronavirus pandemic.

Capital adequacy ratio dropped on faster growth in risk-weighted assets. Small banks are still subject to capital shortfalls and suffered higher asset risks amid deteriorating asset quality.

Banks' liquidity remained adequate. Baoshang bank's bankruptcy and the bond write-off only has a limited negative effect on the market.

Banks' interconnectedness with the shadow banking system has increased moderately, but there is limited room for upside.

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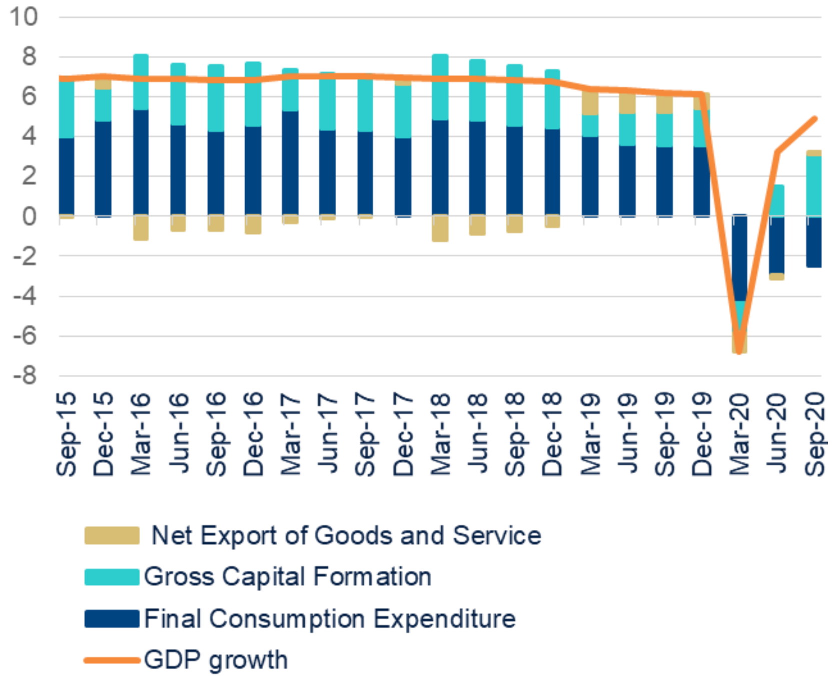
01

Macroeconomic environment

Credit growth stabilized, reflecting monetary policy normalization

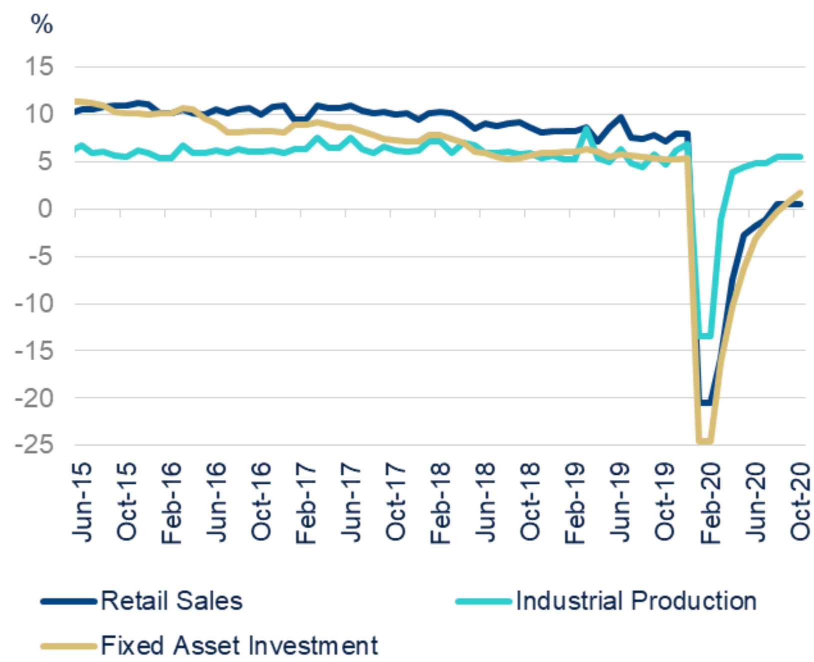
Economic growth continues the V-shape recovery after the coronavirus shock

GROWTH PICKED UP REMARKABLY IN Q3, REFLECTING ROBUST RECOVERY IS ON TRACK



Source: CEIC & BBVA Research.

INDUSTRIAL PRODUCTION HAS LARGELY BACK TO PRE-COVID LEVELS

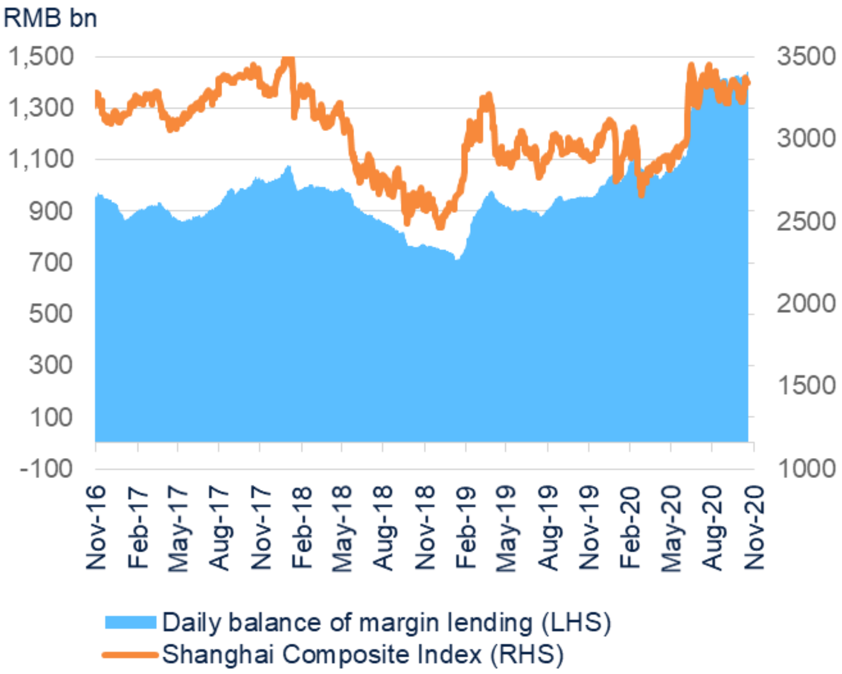


Source: CEIC, Haver & BBVA Research.

The economic growth registered 4.9% y/y in the third quarter, putting China's economy back toward its pre-pandemic trajectory after the Covid-19 shocks. The Q3 expansion was built on the second quarter's 3.2% growth, which followed a contraction of 6.8% in Q1,when authorities locked down the central Chinese city of Wuhan to limit the fast-spreading virus.

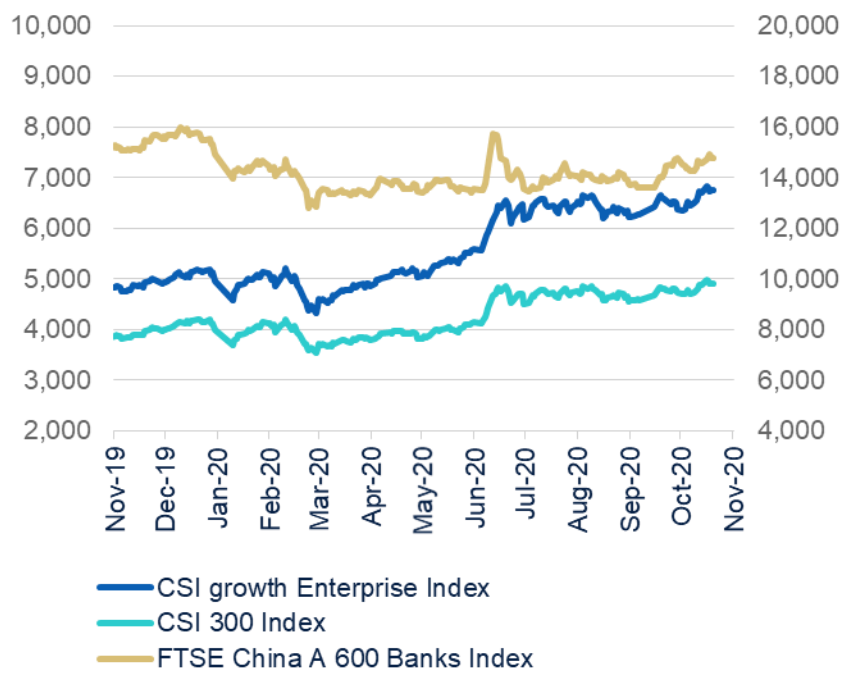
China's stock market recoups Covid-19 losses

CHINESE STOCK MARKETS OUTPERFORMED AMID STRONG ECONOMIC GROWTH



Source: Wind & BBVA Research.

CSI 300 INDEX HAS RISEN BY AROUND 20% SINCE MARCH

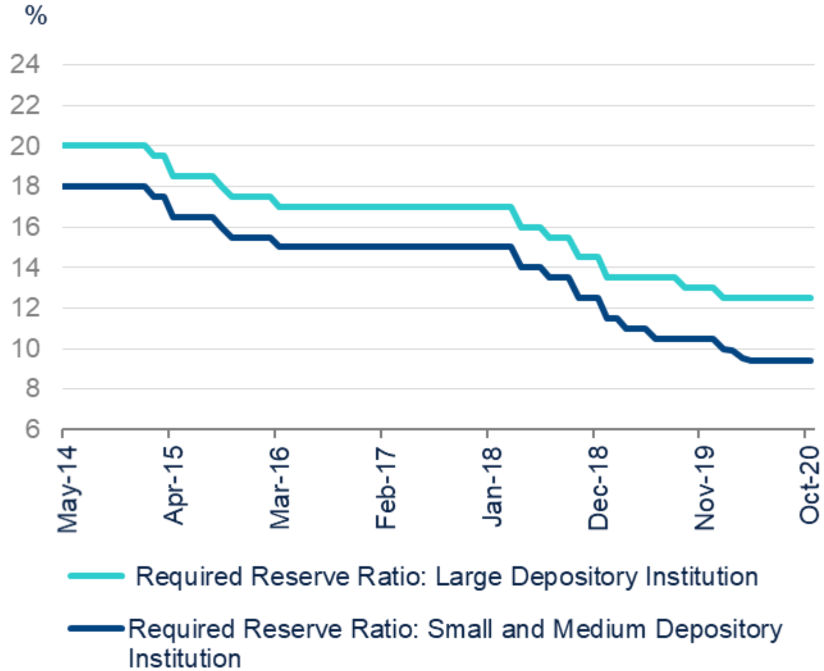


Source: Wind & BBVA Research.

China's stock market value surpassed US $10 trillion for the first time since 2015 due to the success that the government brought the coronavirus under control. Daily balance of margin lending showed an increase trend, although it was less prevalent than it was in 2015, reflecting increased market risk appetite. The recent fluctuations in stock market was triggered by several SOE bond defaults, but the risk is idiosyncratic rather than systematic.

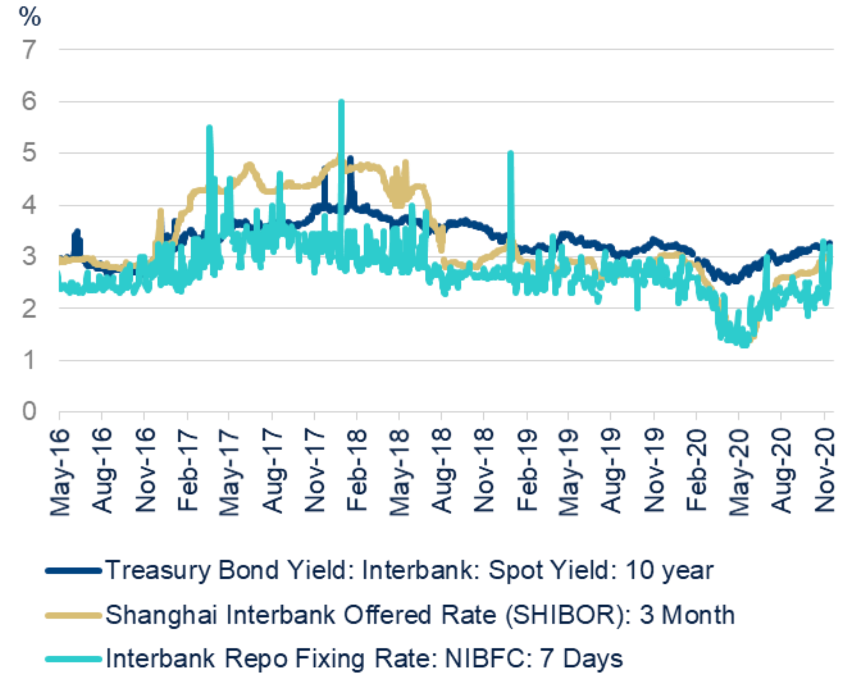
Supportive economic policies have been implemented to cushion the economic blow from the pandemic

THE CENTRAL BANK HAS CUT RRR 3 TIMES SINCE MARCH



Source: Haver & BBVA Research.

INTEREST RATES HAS BEEN TRENDING UP FOLLOWING A SLUMP AS MONETARY POLICY NOMALIZATION

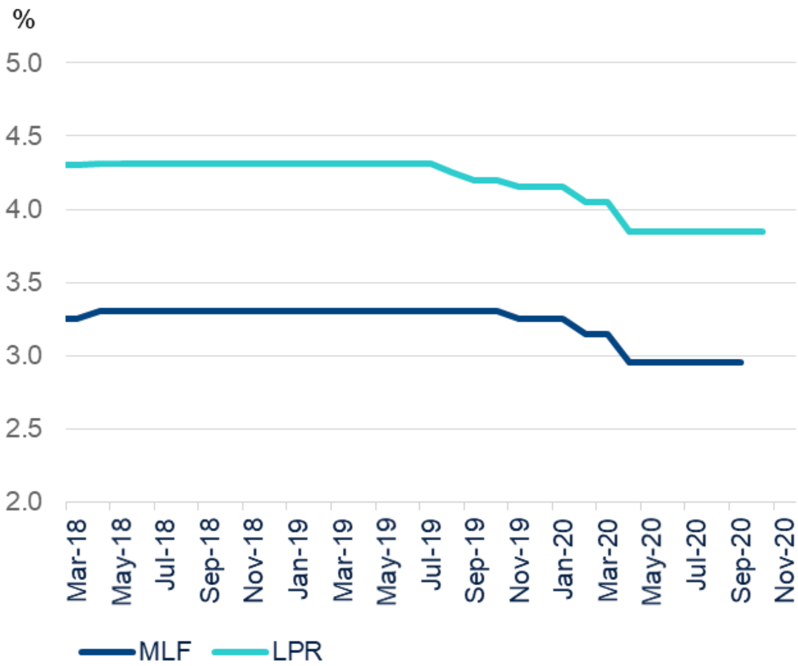


Source: CEIC & BBVA Research.

The Central Bank has cut required reserve ratio 3 times for eligible banks during pandemic period this year, total releasing RMB 950 billion (US$ 134.95) of long-term funds. The interest rate has been trending up since May 2020,indicating monetary policy normalization in the second half of the year.

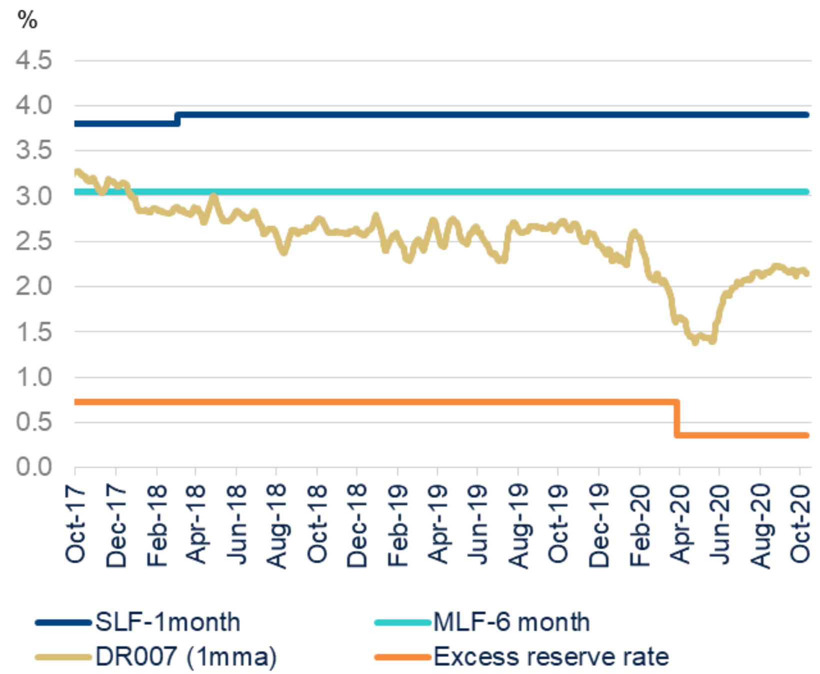
Loan Prime Rate (LPR) is broadly used as the benchmark rate for bank loan pricing

BANK'S PROFITABILITY IS SUFFERED PRESSURE AS MORE LOANS SWITCH TO BE LPR-BASED



Source: CEIC & BBVA Research.

THE DR007 HAS BEEN TRENDING UP SINCE MAY 2020 UNDER THE CORRIDOR MONETARY POLICY FRAMEWORK

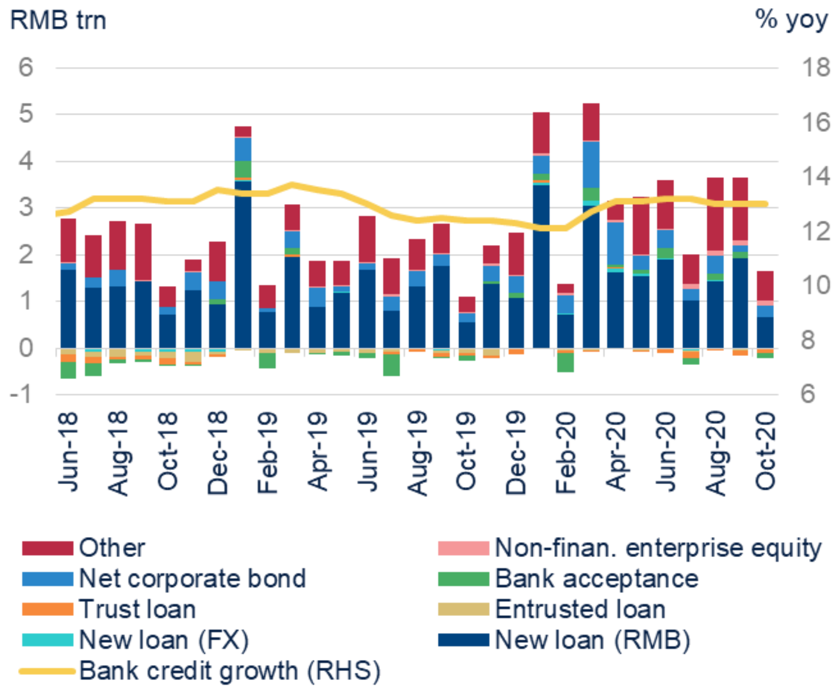


Source: Wind & BBVA Research.

The Loan Prime Rate (LPR) was reintroduced in August 2019,which has functioned as part of the monetary policy framework to help transmit the lower money market rate to flow to the real economy, effectively cutting lending rate during the coronavirus outbreak. Banks' lending income suffered as more loans switch to be LPR-based.

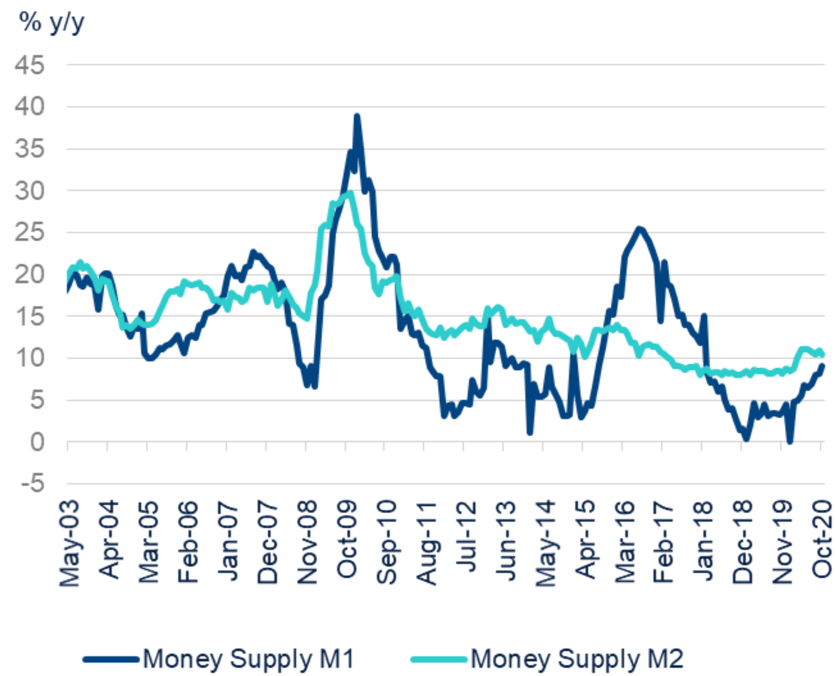
Credit growth stabilized as the monetary policy normalized in 2H

NEW CREDIT SUPPLY IS MAINLY THROUGH BANKS' BALANCE SHEET



Source: CEIC & BBVA Research.

M2 GROWTH SLOWED DOWN WHILE M1 GROWTH ACCELERATED, INDICATING MONETARY POLICY NORMALIZATION



Source: Wind & BBVA Research.

Growth of outstanding total social financing (TSF), a broad measure of credit and liquidity in the economy, stabilized in October, reflecting the PBoC's monetary policy normalization stance amid a better-than-expected economic recovery.

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02

Performance of banking Sector under the shadow of coronavirus

Upward pressure on non-performing loans is expanding, banks’ profit are suffered pressure on rising provisions to guard against potential losses

Creating Opportunities

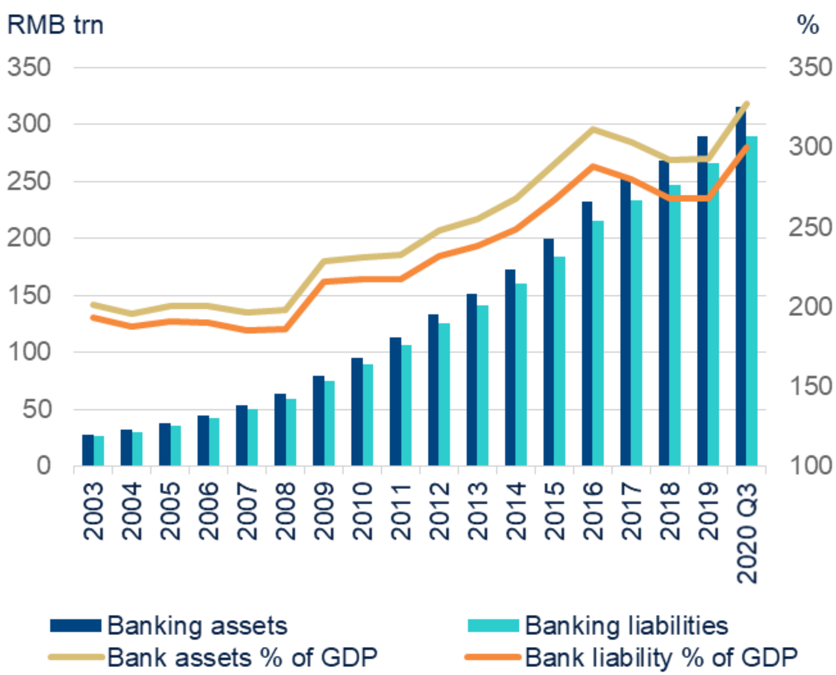
A snapshot of financial fundamentals

	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3
Asset quality and credit risk									
Loans/total assets	50.4%	50.8%	51.5%	51.8%	52.7%	52.8%	53.0%	53.4%	53.7%
NPL ratio	1.87%	1.83%	1.80%	1.81%	1.86%	1.86%	1.91%	1.94%	1.96%
(NPL+special-mention loan) ratio	5.11%	4.93%	4.80%	4.74%	4.84%	4.77%	4.88%	4.69%	4.62%
Provisions/NPLs	180.7%	186.3%	192.2%	190.6%	187.6%	186.1%	183.2%	182.4%	179.9%
Profitability & efficiency									
NIM	2.15%	2.18%	2.17%	2.18%	2.19%	2.20%	2.10%	2.09%	2.09%
Cost to income ratio	28.0%	30.8%	26.7%	27.5%	28.6%	31.7%	25.7%	26.9%	28.1%
ROE	13.35%	13.15%	12.96%	12.79%	12.57%	11.00%	12.10%	10.30%	10.00%
ROA	1.00%	1.00%	0.99%	0.98%	0.97%	0.87%	0.98%	0.83%	0.80%
Solvency									
Tier 1 ratio	11.3%	11.6%	11.5%	11.4%	11.8%	11.0%	12.1%	10.3%	10.0%
Core Tier 1	10.8%	11.0%	11.0%	10.7%	10.9%	10.9%	10.9%	10.5%	10.4%
Leverage ratio	6.6%	6.7%	6.6%	6.6%	6.8%	6.9%	6.9%	6.7%	6.7%
NPLs/ Capital	11.1%	10.7%	10.6%	10.8%	10.9%	10.9%	11.3%	11.9%	11.9%
Liquidity and funding									
Deposits/Total assets	66.6%	66.2%	66.6%	66.5%	67.0%	66.5%	66.4%	67.1%	67.0%
Non-deposits funding (Central bank, bonds, NCDs, ...) / Total assets	38.0%	38.5%	37.4%	37.4%	37.3%	37.8%	37.3%	36.8%	37.2%
Loan to deposit ratio	73.6%	74.3%	72.2%	72.9%	74.4%	75.4%	74.9%	74.6%	75.5%
Current assets/ Current liabilities	52.9%	55.3%	56.8%	55.8%	57.0%	58.5%	58.6%	58.2%	58.6%
Liquidity coverage ratio	127.8%	138.0%	141.1%	140.2%	137.3%	146.6%	151.5%	142.5%	138.7%

Source: CBRIC & BBVA Research

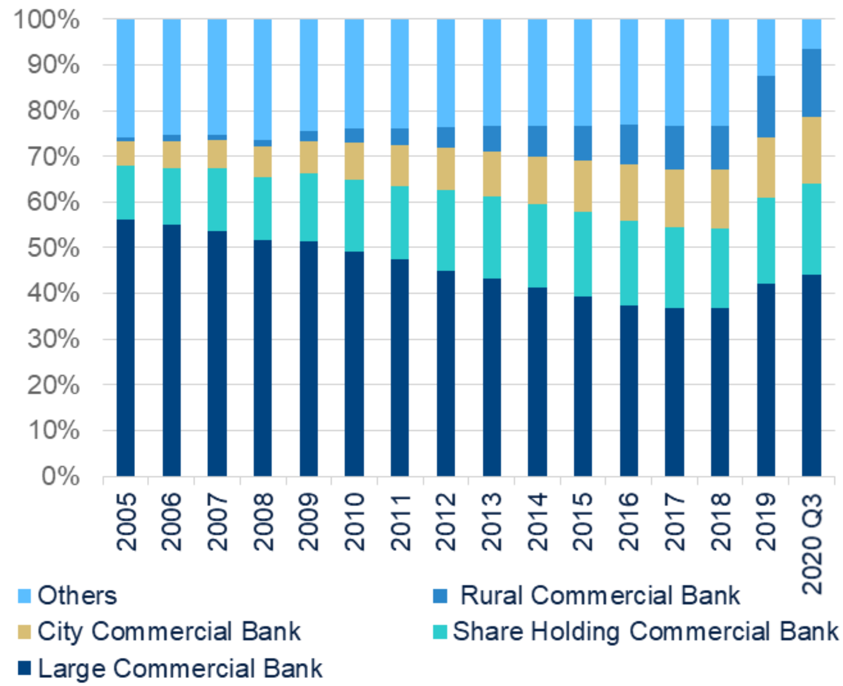
Bank assets showed a fast growth amid authorities’ effort to strengthen credit

BANKING ASSETS ACCELERATED ITS GROWTH RATE



Source: CBIRC & BBVA Research.

LARGE AND SHAREHOLDING COMMERCIAL BANKS STILL DOMINATE

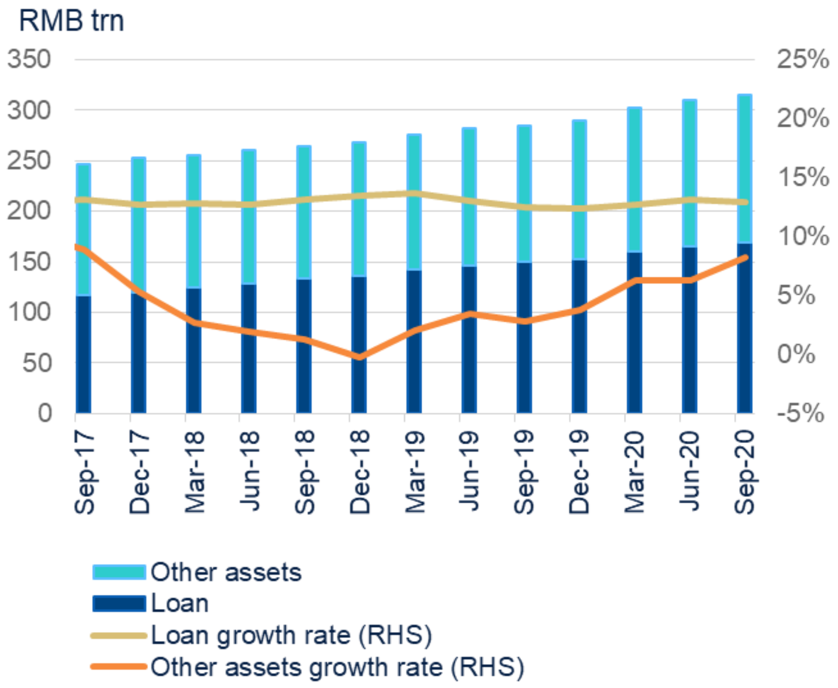


Source: CBRIC & BBVA Research.

China’s banking sector assets accelerated to 10.7% yoy, with total assets reaching RMB315.2tn,amid authorities’ call to lend to the pandemic-hit economy. Among which large commercial banks recorded the fastest growth, followed by shareholding commercial banks.

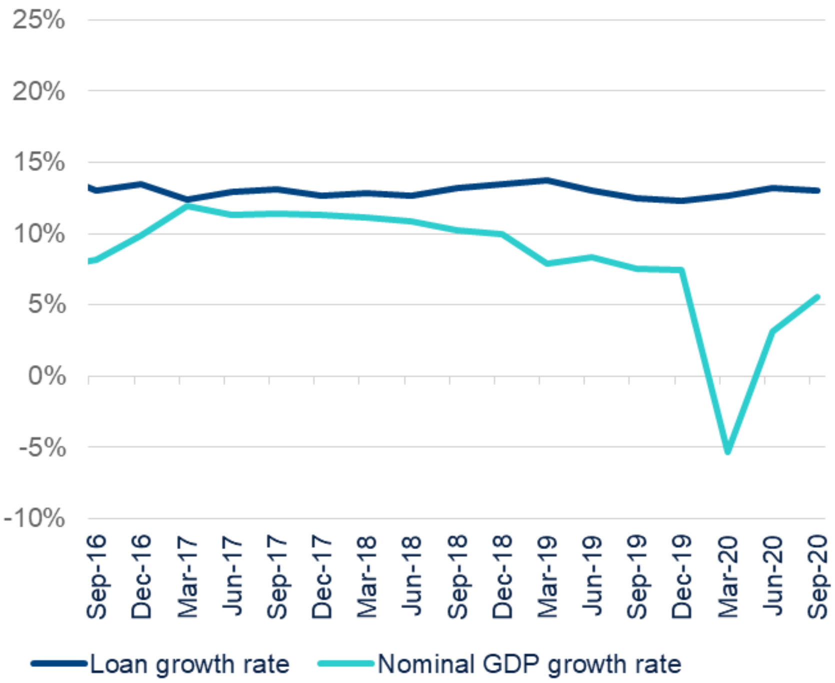
Credit maintained momentum to support real economy

BANK ASSETS GROWTH WAS DRIVEN BY FORMAL BANK-LOAN



Source: CEIC & BBVA Research.

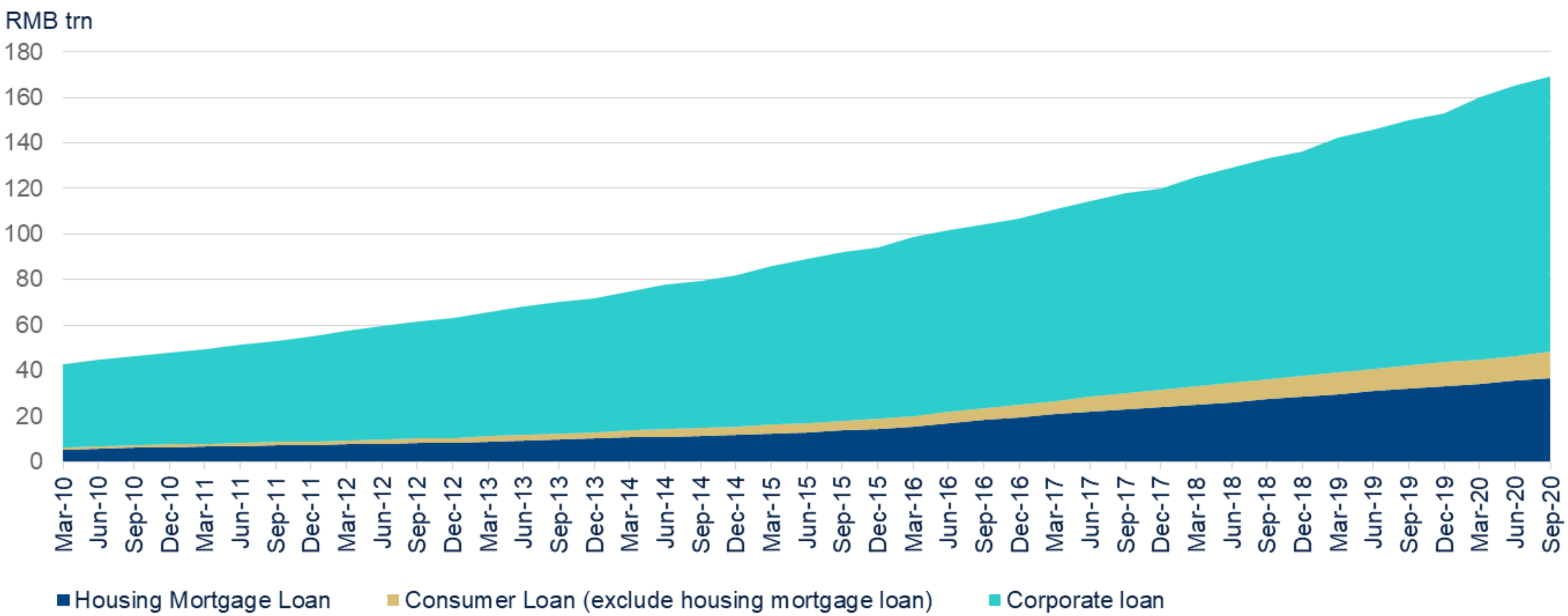
LOAN GROWTH RATE OUTPACED NOMINAL GDP AMID AUTHORITIES' EFFORT TO HELP THE REAL ECONOMY



Source: CEIC & BBVA Research.

Higher loan growth rate contribution to the bank asset growth in response to authorities' call for more lending to the small and medium sized companies (SMEs). Non-loan assets, which are believed to be associated with shadow banking activities also increased because of the slower implementation of asset management regulations.

Corporate loans growth rate quickened

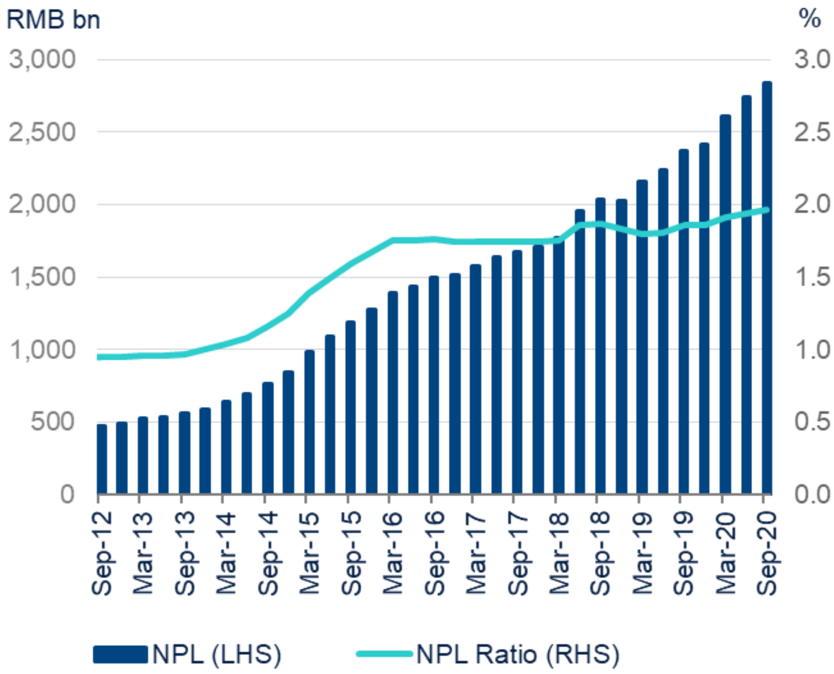


Source: CEIC & BBVA Research.

Loan balance of nonfinancial corporates increased by 12.7% in September, this is driven by short-term corporate loan growth as banks stepped up lending to business recovery post Covid-19.infrastructure projects. The growth of household loans remained strong, with the outstanding balance up by 14.5% yoy. Growth of consumer loans eased further, reflecting still fragile consumer confidence after the coronavirus pandemic.

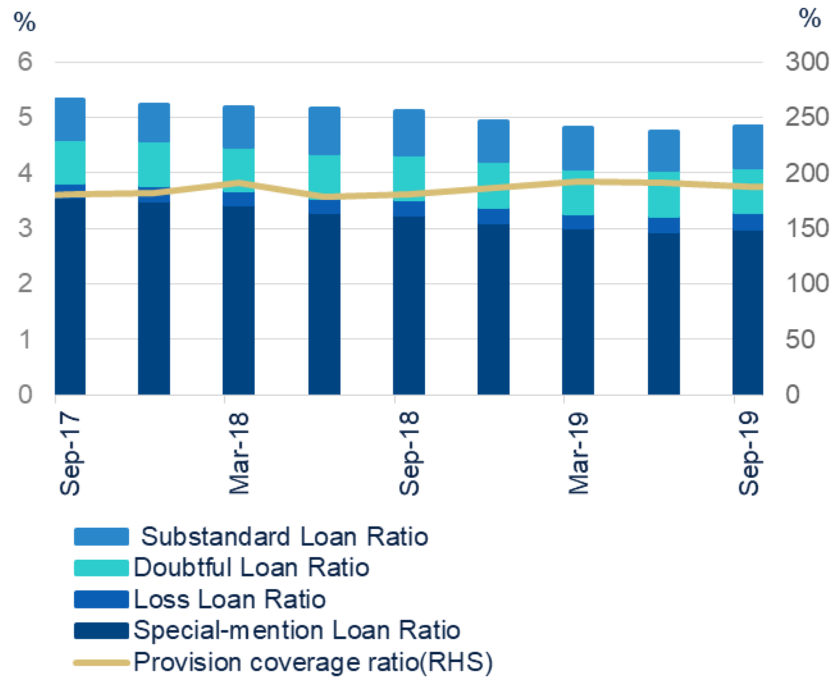
Asset quality deteriorated as borrowers' struggle to repay after the COVID-19 pandemic

NPLS MOUNT AS ECONOMY SLOWS



Source: CEIC & BBVA Research.

…SPECIAL- MENTION LOAN RATIO MODERATED

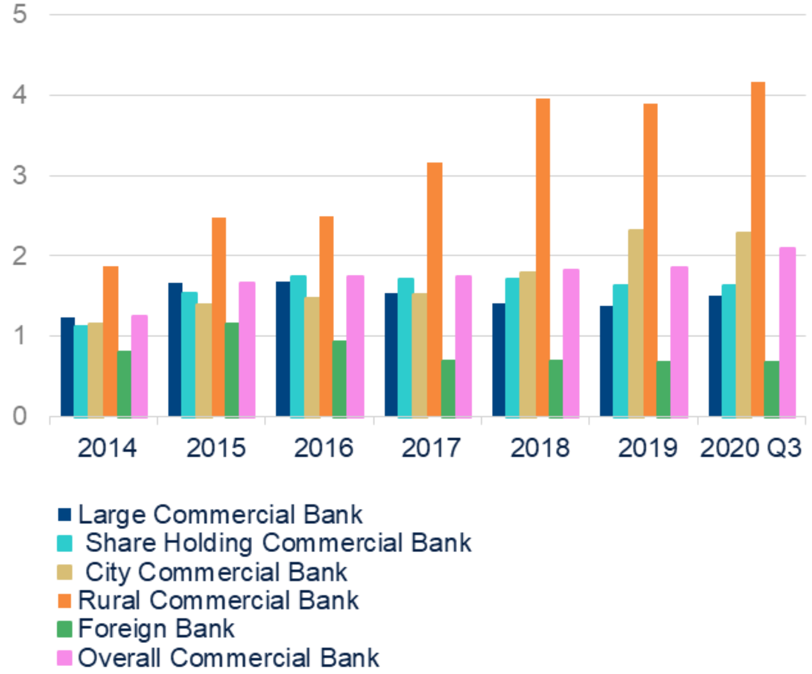


Source: CEIC & BBVA Research.

Both the NPL balance and NPL ratio in Q3 2020 have shown an overall large increase, with NPL balance edged up by 17.5% and NPL ratio reached 1.96. However, special-mention loan ratio declined to 2.66% from 2.99% as a strengthened effort in bad loan disposal capability, resulting banks overall NPL ratio dropping to 4.69% from 4.74% at the end of 2019 if added the special-mention loan ratio.

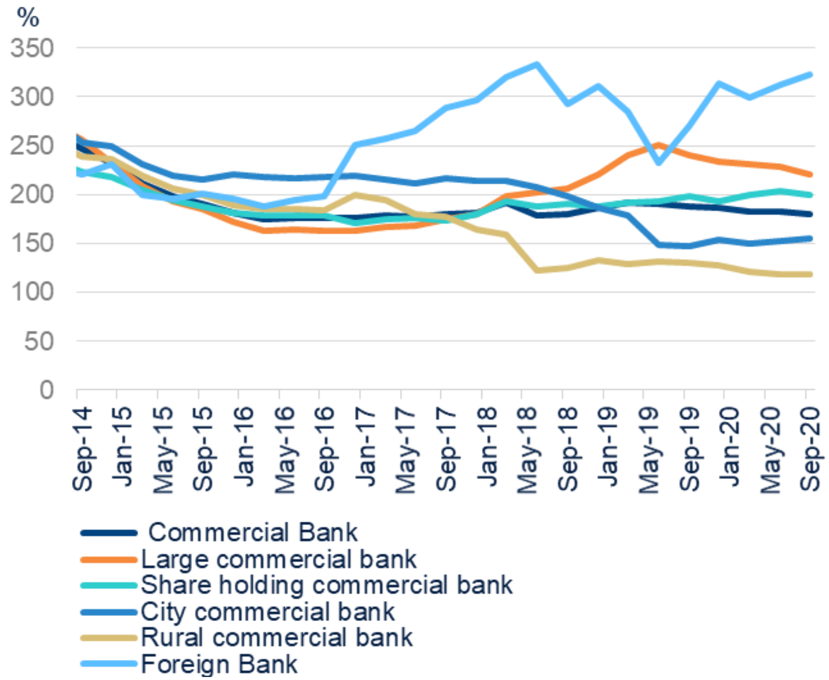
Upwards pressure on non-performing assets is expanding, especially for rural commercial banks

MARKED RISE IN LARGE AND RURAL COMMERCIAL BANKS' NPL RATIO



Source: CEIC & BBVA Research.

…WHILE THE PROVISION COVERAGE RATIO FOR RURAL COMMERCIAL BANKS IS UNDER THE REGULATORY REQUIREMENT

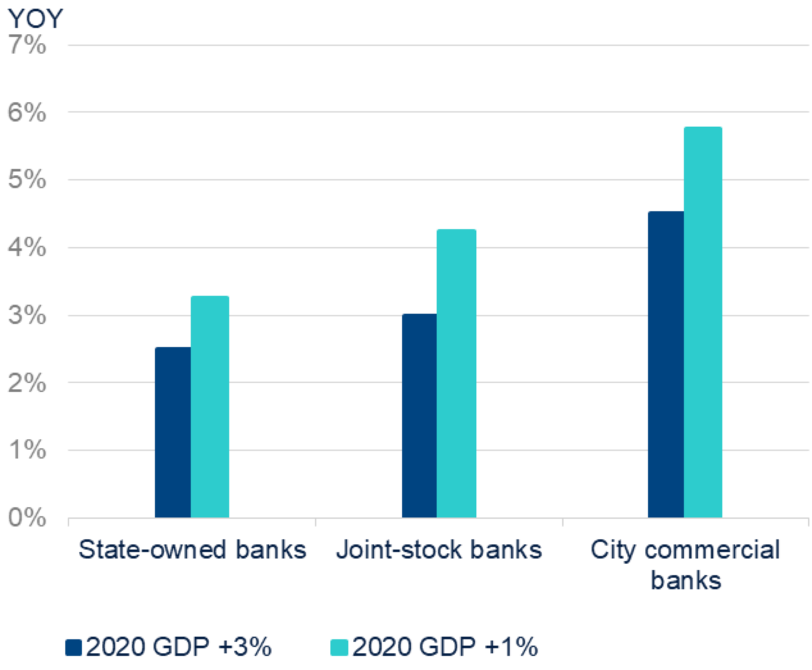


Source: CEIC & BBVA Research.

Although most banks have been raising provisions to counter expected losses, asset quality diverged among big and smaller banks. The rural commercial banks suffered a higher NPL ratio increase due to rising bad loans. However, they collectively manage a provision coverage ratio of only 128%, which means that they are under the regulation requirement of keeping the provision ratio to bad loans to at least 150%.

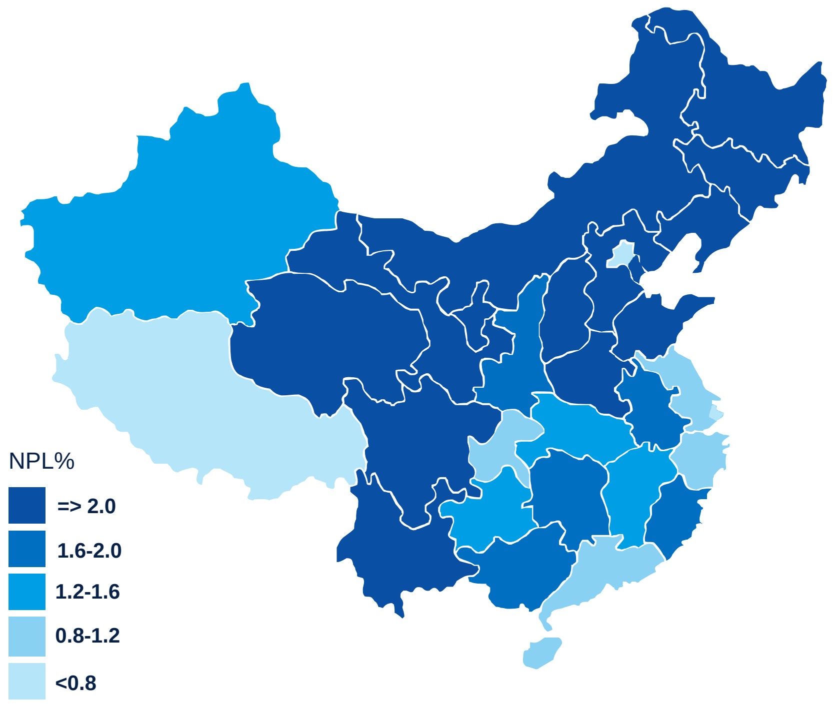
The effect of the economic slowdown on banks have not materialized fully

PROJECTED RISE IN CHINA'S NON-PERFORMING LOAN RATIOS



Source: Fitch Bohua.

NPL LANDSCAPE BY REGION

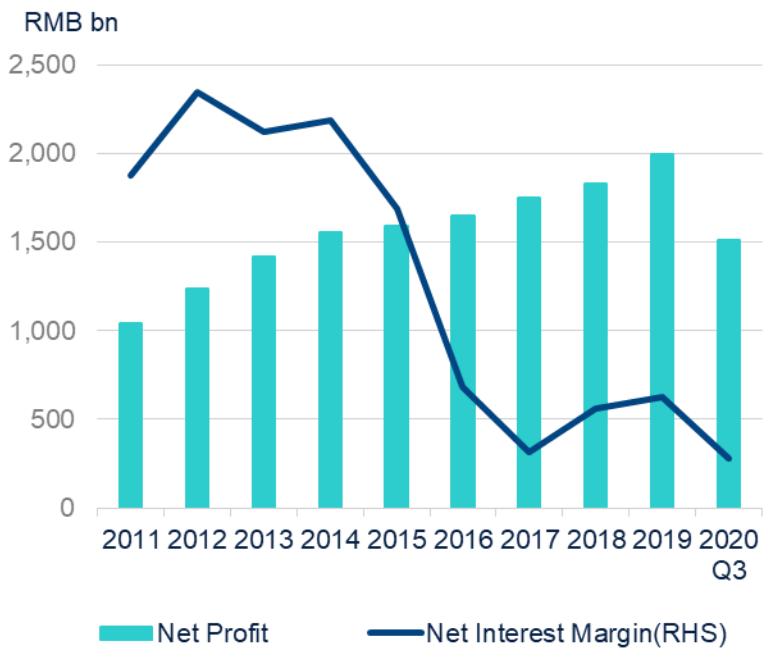


Source: CBRIC & BBVA Research.

The economic impacts of the COVID-19 pandemic will put greater upward pressure on non-performing loan (NPL) levels for the rest of this year and even next year as there is a delay in the financial system's reflection of the economic downtrends. Troubled banks are most numerous in north China.

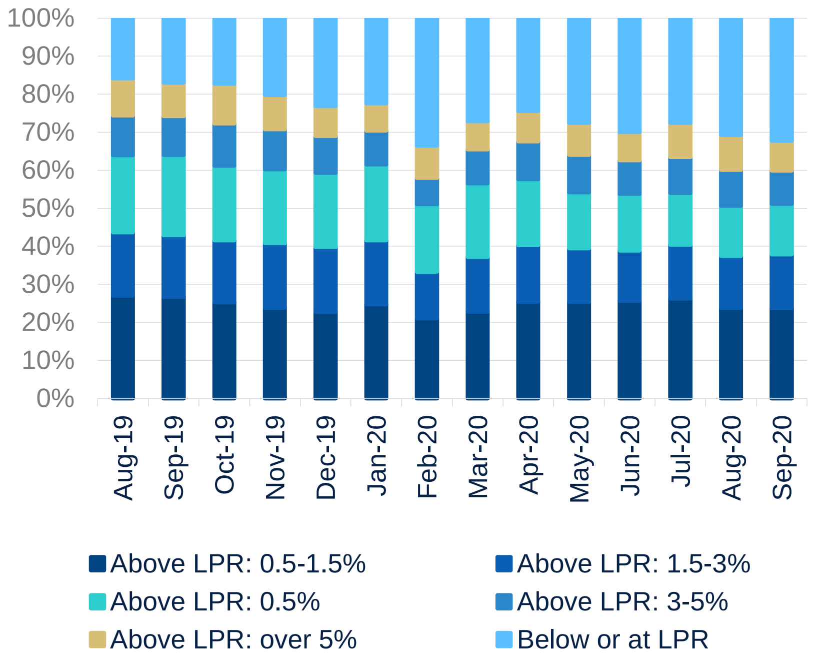
Banks' profit suffered pressure on an narrowing net interest margin and lower pricing capability

NET INTEREST MARGIN (NIM) NARROWED IN 3Q 2020



Source: CBRIC & BBVA Research.

THE PROPORTION OF LENDING RATE BELOW OR AT LPR CONTINUES TO RISE



Source: CBRIC & BBVA Research.

Banks' net profits growth in Q3 reported a decline at 8.3% yoy followed by an unprecedented decline at 24% in Q2, which recorded the biggest drop in at least a decade. Net interest margins (NIM) narrowed as lower rates on loans, the first substantial decline since 2017, reflecting the regulatory guidance to reduce funding costs for corporate borrowers to support the economy amid a slow recovery.

How banks surrendered RMB 1.5 trillion in profit to help relieve companies' financial burden?

BREAKDOWN OF RMB 874 BN TOTAL BENEFITS TO NONFINANCIAL COMPANIES AS OF JULY

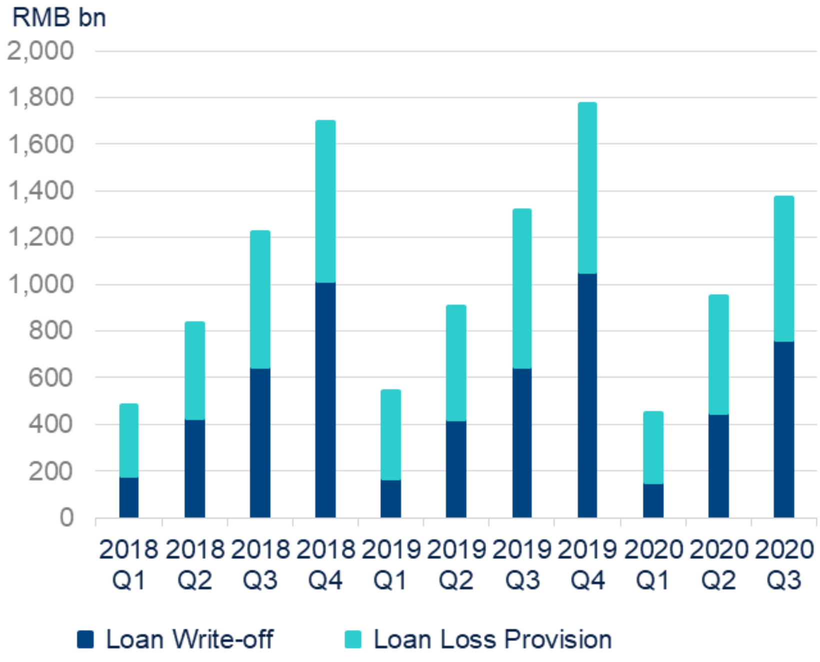
Borrowing cost reduction	Supportive policies for SMEs	Suportive policies for small & medium firms	Reduction of bank service fees
Cuts in loan prime rate: RMB 354bn Relending and rediscounting: RMB 37bn Lower bond coupons: RMB 79bn	Reduced credit guarantee fees: RMB 12bn Loan extension: RMB 121.5bn	RMB 66bn	RMB 204.5bn

Source: CBIRC Website & BBVA Research.

Besides, banks were asked to forgo RMB 1.5 trillion in profit (approximately 75% of their 2019 net profits) by lending to flagging sectors which are cash-strapped through lowering lending rate, loan repayment forbearance, fees cut and grant more unsecured loans in a bid to revive the economy.

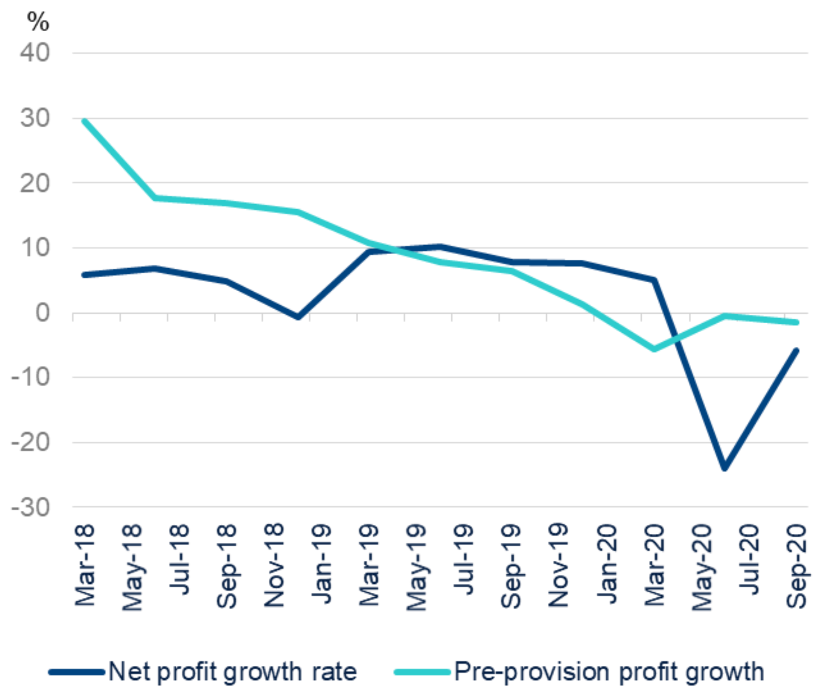
Regulators forced banks to take pro-cyclical provisions, adding more pressures to the profit

BANKS' BAD LOANS PROVISIONS HAVE HIT A RECORD HIGH IN THE FIRST THREE QUARTERS OF 2020



Source: CBRIC & BBVA Research.

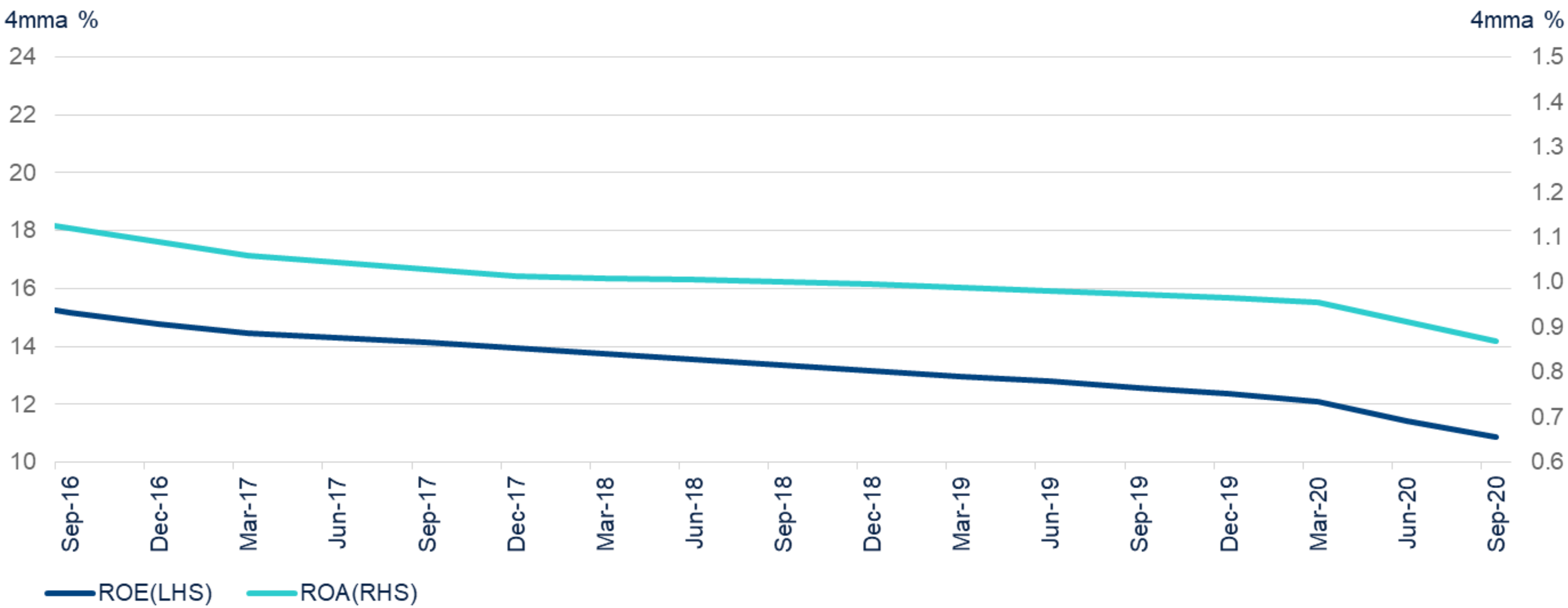
BANKS' PRE-PROVISION PROFIT GROWTH IS FAR HIGHER THAN NET PROFIT GROWTH RATE



Source: CBRIC & BBVA Research.

Banks' provisions for bad loans have hit a record high in the first three quarters of 2020, and will likely rise even further for the rest of the year. The steep drop in the growth of earning is mainly the result of regulators requirement to take preemptive action in case of a future rise in bad loans, which reversed the previous pattern that banks would lower provision in a slumped profit environment to smooth profit.

ROA and ROE continued their weak performance and dipped further

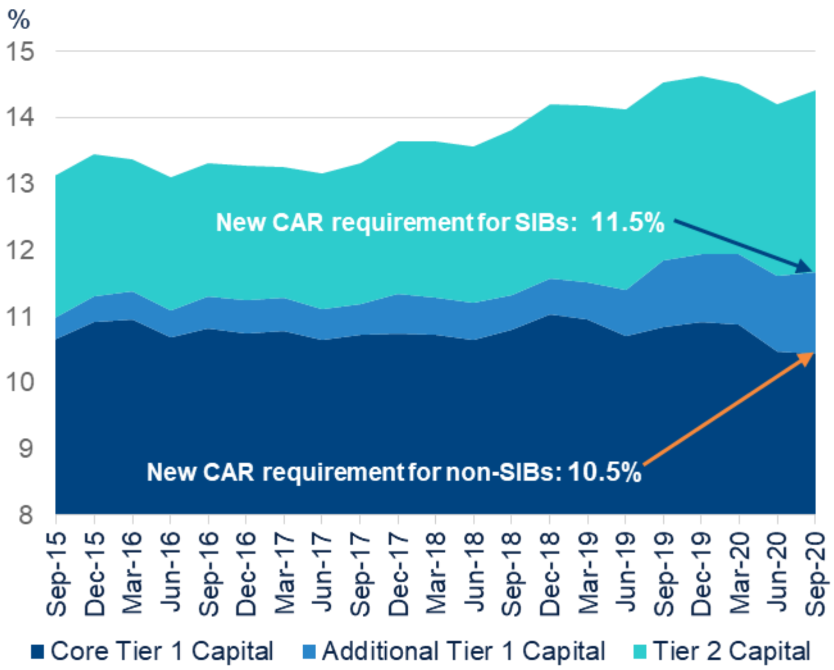


Source: CBRIC & BBVA Research.

Lower profitability weakens banks’ ability to support risk-weighted asset growth solely by retained earnings. Thus, both the return on equity (ROE) and return on assets (ROA) continue decreasing.

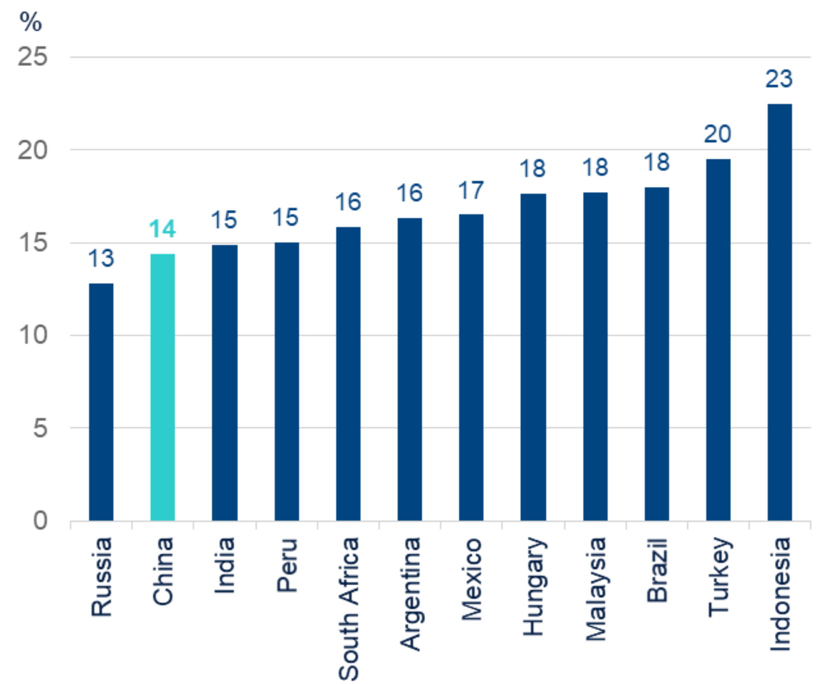
Banks' capital strength deteriorated as they ramped up loans

CORE TIER 1 CAPITAL ADEQUACY RATIO HAS DECLINED SIGNIFICANTLY



Source: CBRIC & BBVA Research.

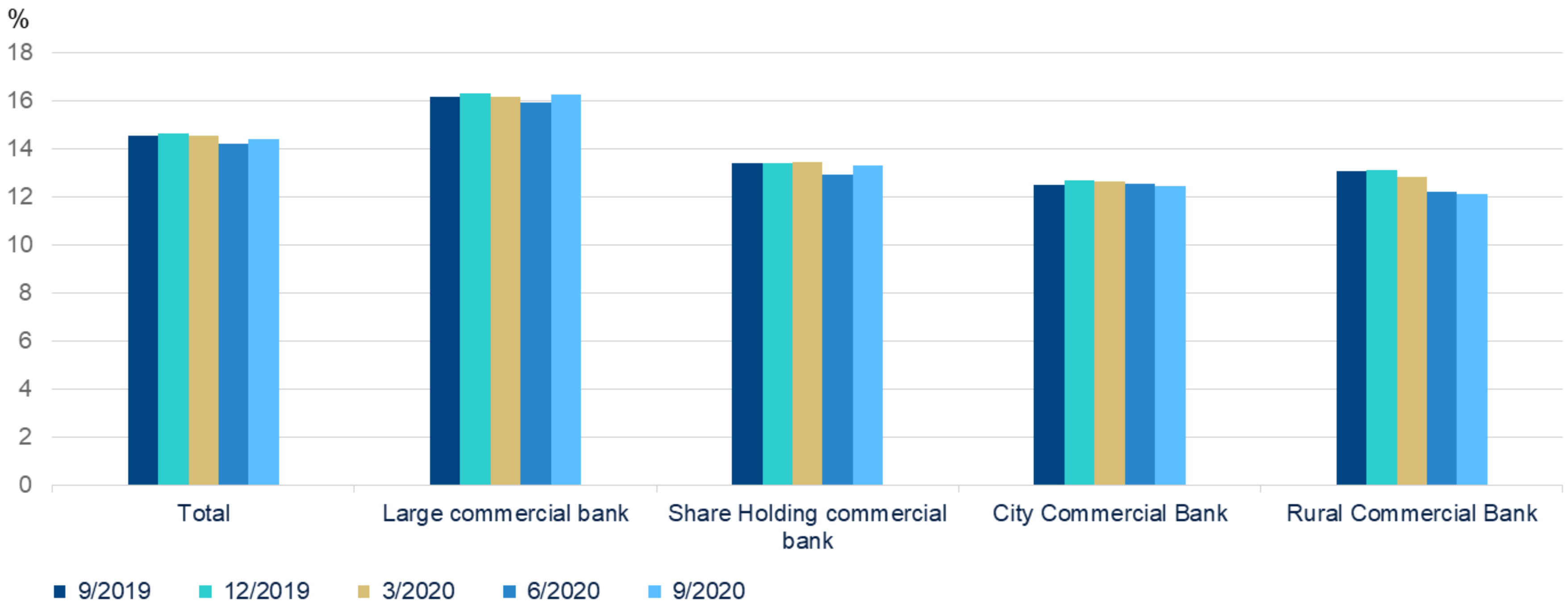
AND CHINESE BANKS' CAR STILL LAG BEHIND THEIR MAJOR EMS PEERS



Source: CBRIC & BBVA Research.

The core tier 1 capital ratio fell significantly as a fast rise in risk-weighted assets. Moreover, banks' capability to replenish capital is restricted in the backdrop of a lowering net profit. However, additional tier 1 capital ratio rose 11 basis points in the period, driven by large issuance of perpetual bonds.

A diverged capital buffer distribution among big and smaller banks

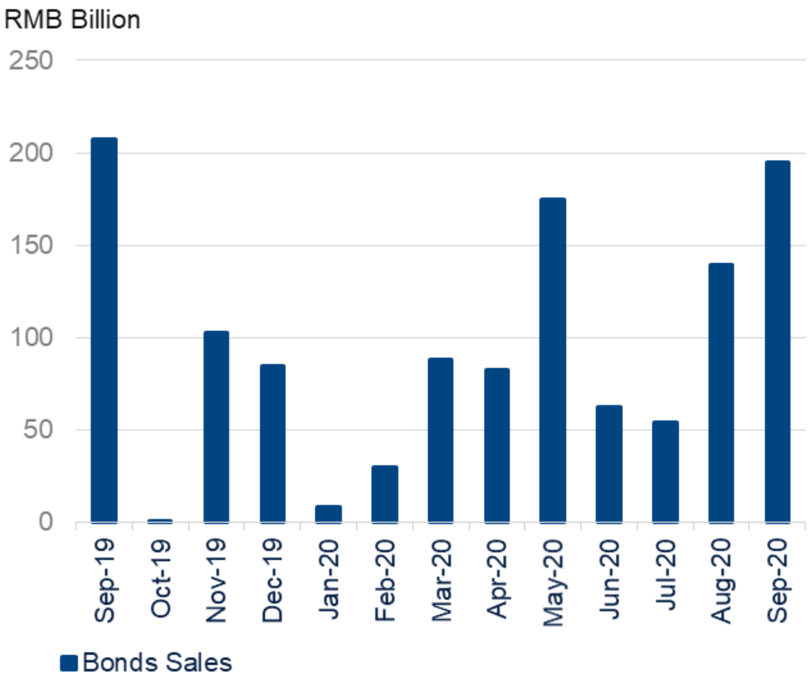


Source: CBRIC & BBVA Research.

City and rural commercial banks have lower capital adequacy ratios as these banks are more sensitive to interest rates and rely more on interest and investment income, which makes them less access to capital and have higher asset risks.

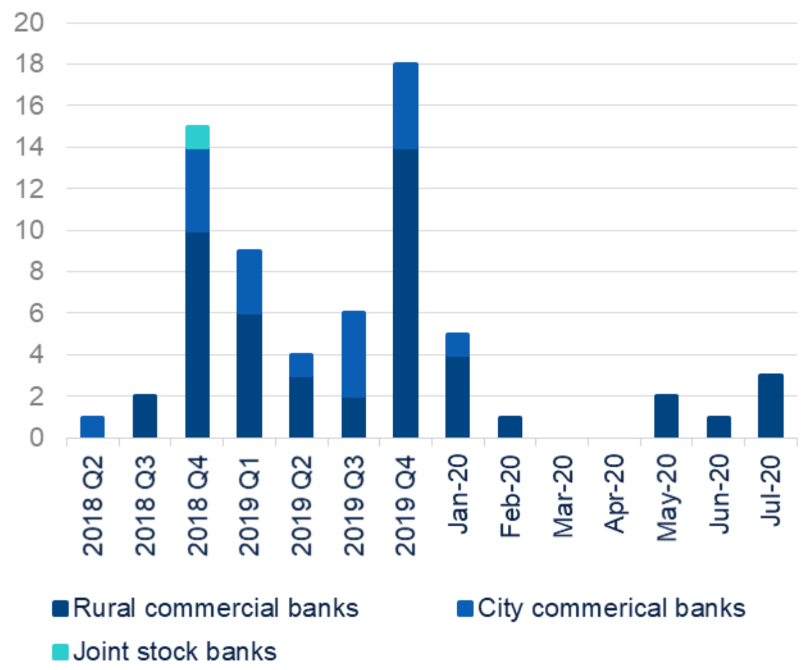
Banks to replenish capital by issuing bonds and equity private placement

BOND ISSUANCE HEADED FOR SECOND HIGHEST ON RECORD IN SEPTEMBER



Source: Bloomberg & BBVA Research.

CSRC RESUMED APPROVAL OF PRIVATE PLACEMENT BY UNLISTED BANKS

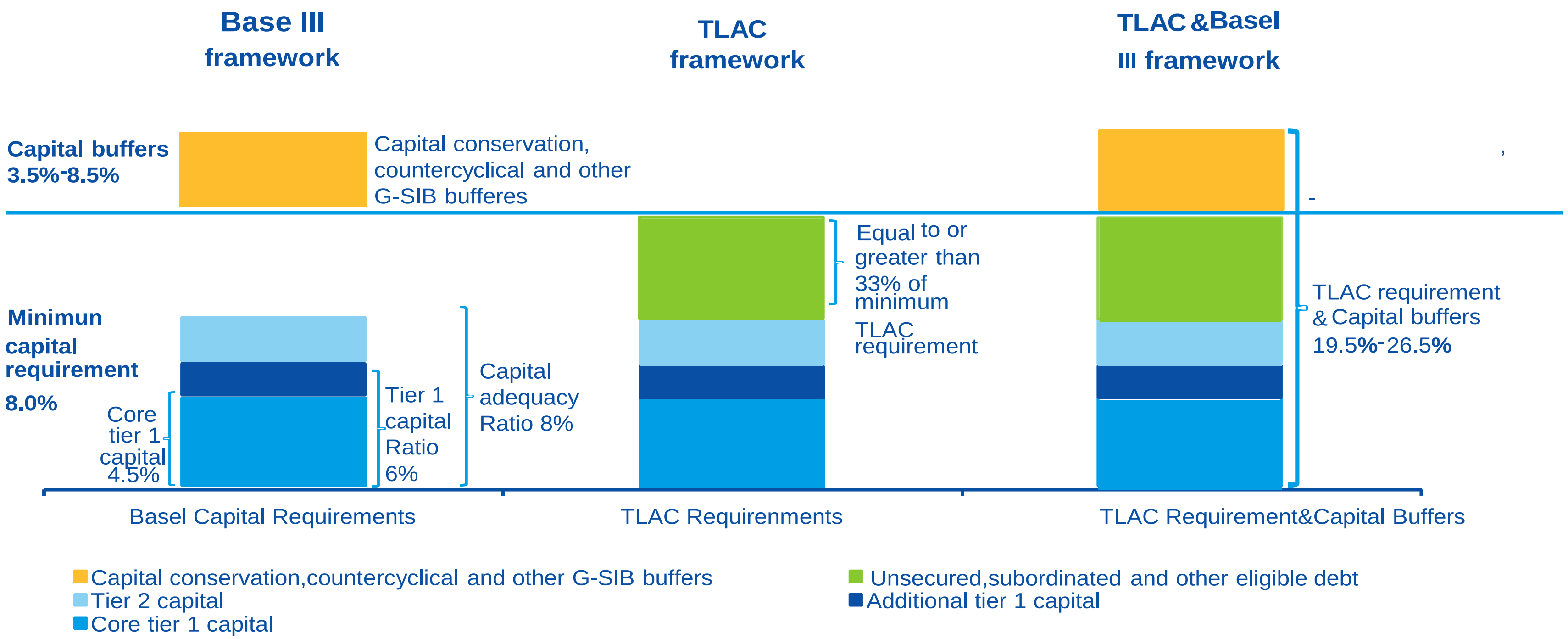


Source: CSRC & BBVA Research.

In order to strengthen capital of banks especially for rual and city commercial banks, the PBOC has approved the issuance of perpetual bonds by Chinese banks at the start of 2019 and CSRC has approved equity private placement this May. The issuance of perpetual bonds and equity private placement give lenders an additional channel for capital replenishment.

China's global systemically important banks face TLAC shortfall

RELATIONSHIP BETWEEN TLAC AND BASEL III

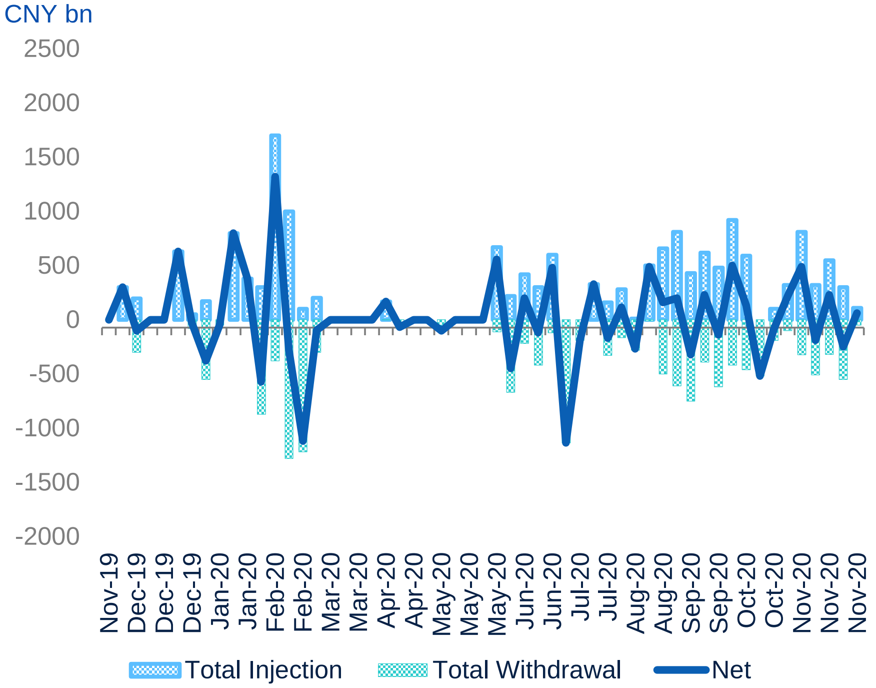


Source: FSB & BBVA Research.

The capital shortage major banks faced will be accelerated in the next few years to meet the TLAC rule, which will be implemented at the start in 2025, with a higher requirement taking effect in 2028. It it expected that the top 4 Chinese banks will need to raise RMB 2.8Tn in capital to meet the regulation needs.

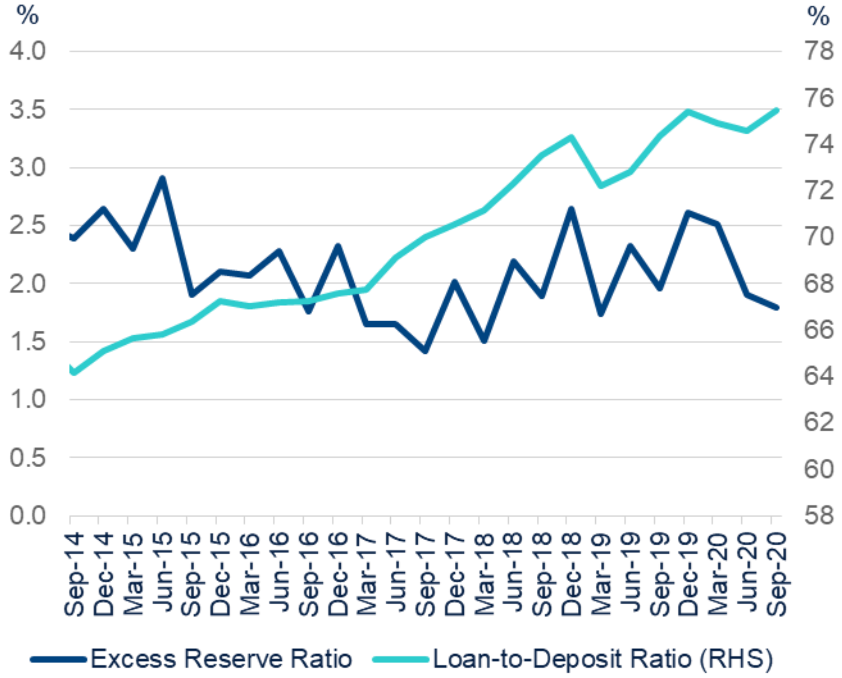
Banks' liquidity remained adequate

CHINA PBOC MODERATED OPEN MARKET OPERATIONS



Source: Bloomberg & BBVA Research.

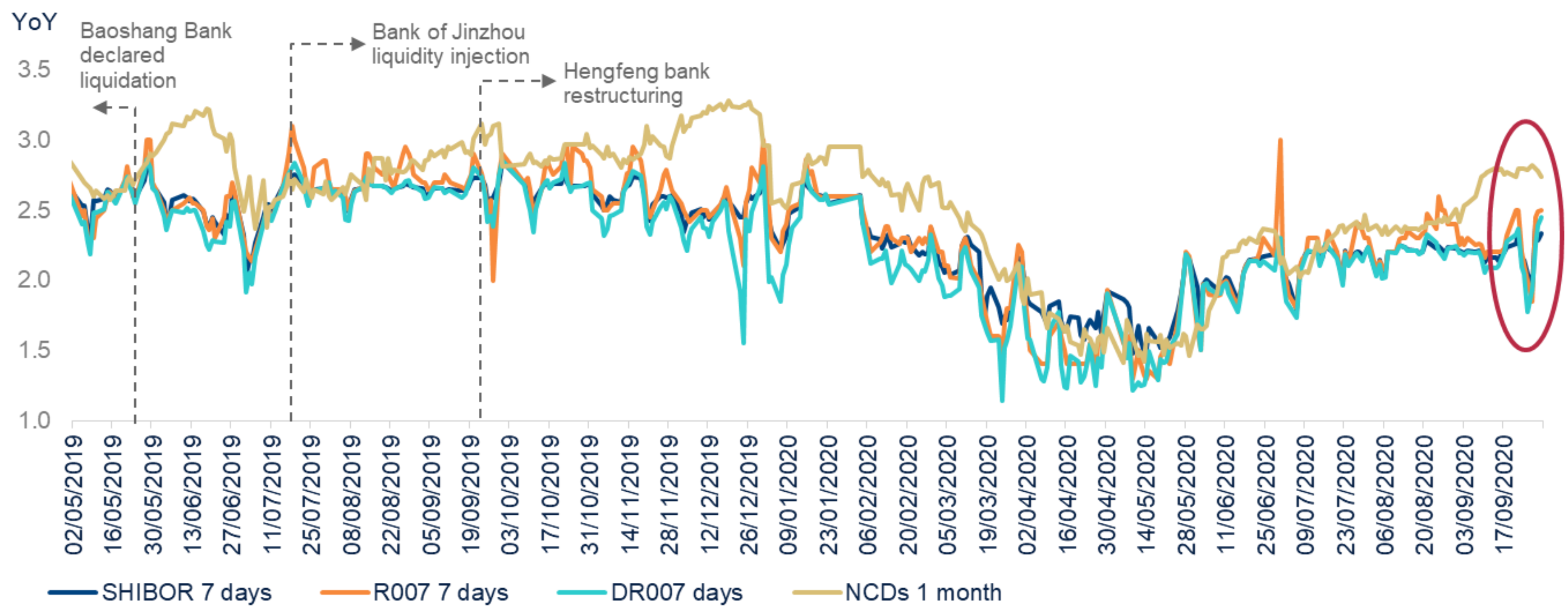
FALLING EXCESS RESERVE AND LOAN-TO-DEPOSIT RATIO INDICATES THAT LIQUIDITY IN THE BANKING SYSTEM REMAIN ADEQUATE



Source: CBRIC & BBVA Research.

The pace of net liquidity injection is eased given the adequate liquidity, which eases concern over that authorities will try to stimulate the economy with an oversized credit injection. Excess reserve ratio fell by 30 basis points in April and is likely to continue to fall after the PBOC cut the interest rate on excess reserves to 0.35% from 0.72%.

Baoshang bank's bankruptcy and bond write-off have only a limited negative impact on the market

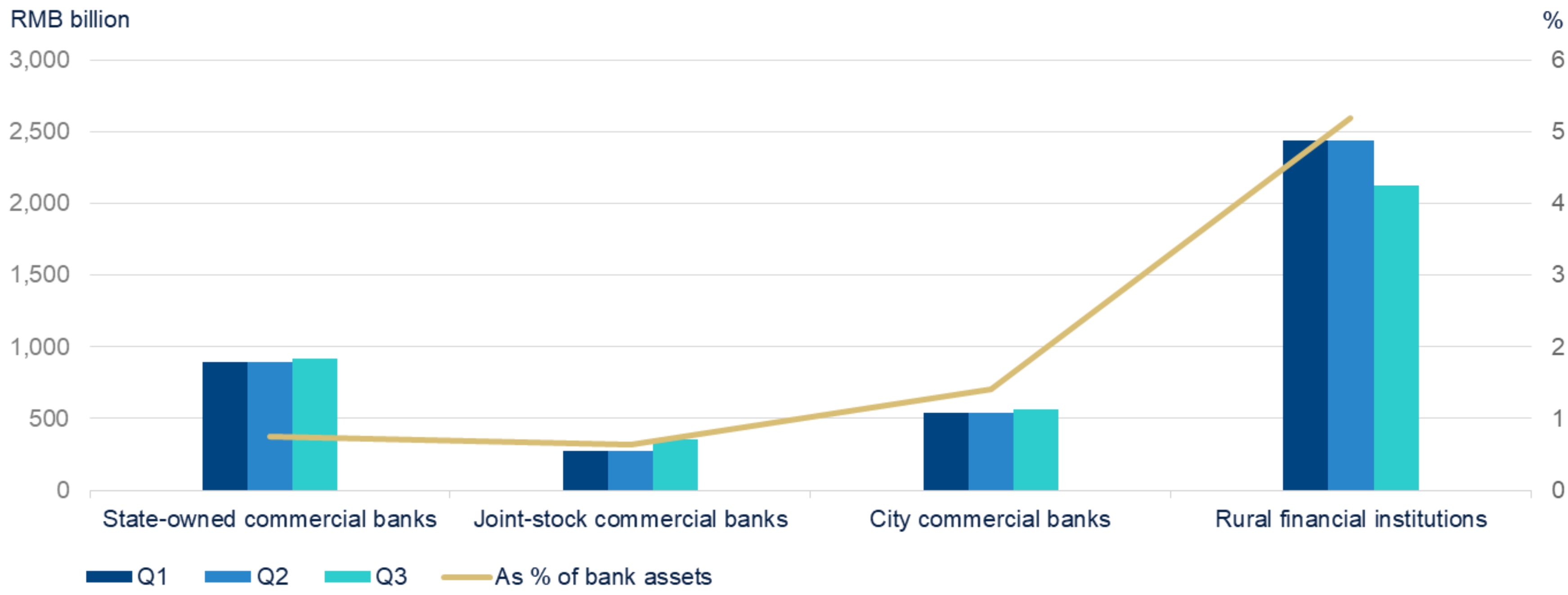


Source: Wind & BBVA Research.

Chinese financial regulators tookover of the deep-insolvency Baoshang bank last year, which has cited serious credit risks. The Baoshang Bank was filed for bankruptcy this August, and plans to fully write-off a RMB 6.5 billion yuan tier-2 bond and won't repay the accumulated interest. However, the negative impact on the market is limited as most of the bank's business has been taken over and only a technical liquidation of its residual left.

Small banks' reliance on negotiable certificates of deposits (NCDs) as funding source contracted moderately

BALANCE OF COMMERCIAL BANKS ISSUED NCDS BY BANK TYPES

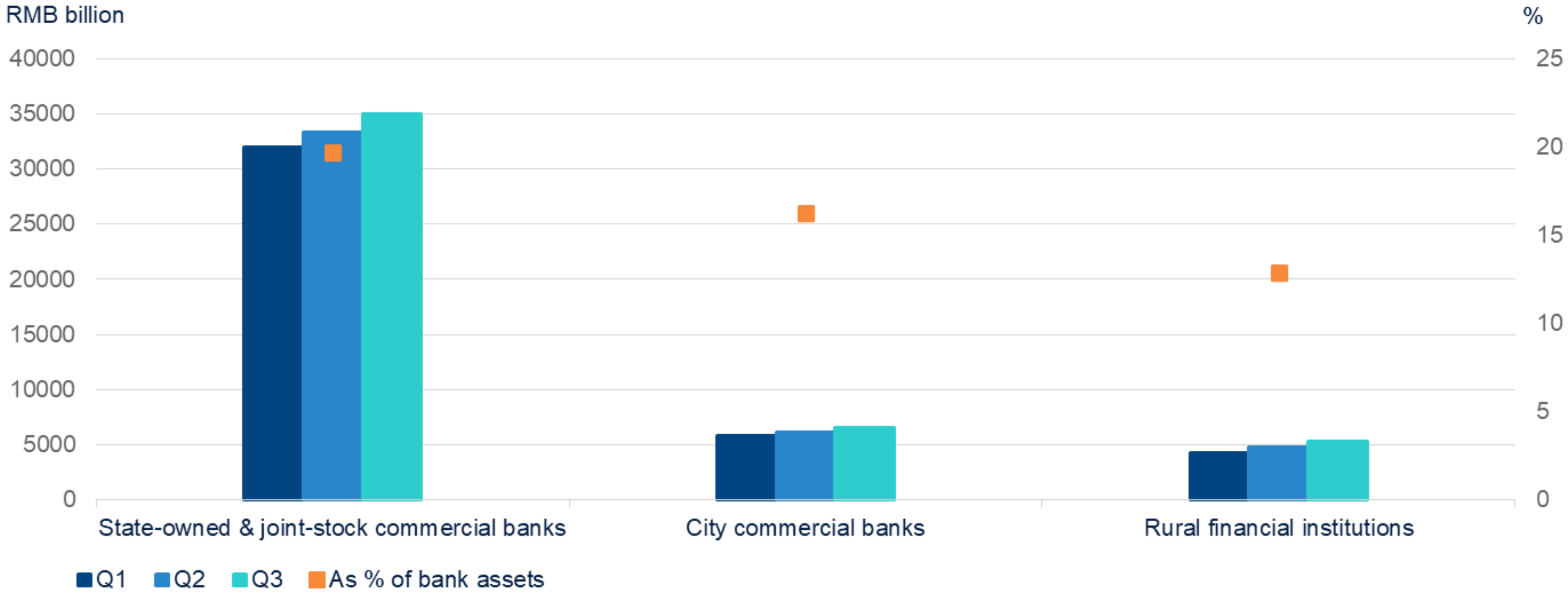


Source: Shanghai Clearing House & BBVA Research.

Small banks especially rural commercial banks' reliance on interbank negotiable certificates of deposit (NCDs) has deducted moderately, reflecting reduced need for NCD funding as recent monetary easing improves banks' access to interbank funds for refinancing.

Banks reliance on the bond market have increased

COMMERCIAL BANKS ISSUED BONDS BY BANK TYPES



Source: ChinaBond & BBVA Research.

Commercial banks remain the largest holders of bonds for liquidity management and investment purpose, they have speeded up their issuance of bonds especially tier-2 bonds as a funding source to strengthen their capability to support the economy in an lower interest rate environment after the coronavirus pandemic.

BBVA Research

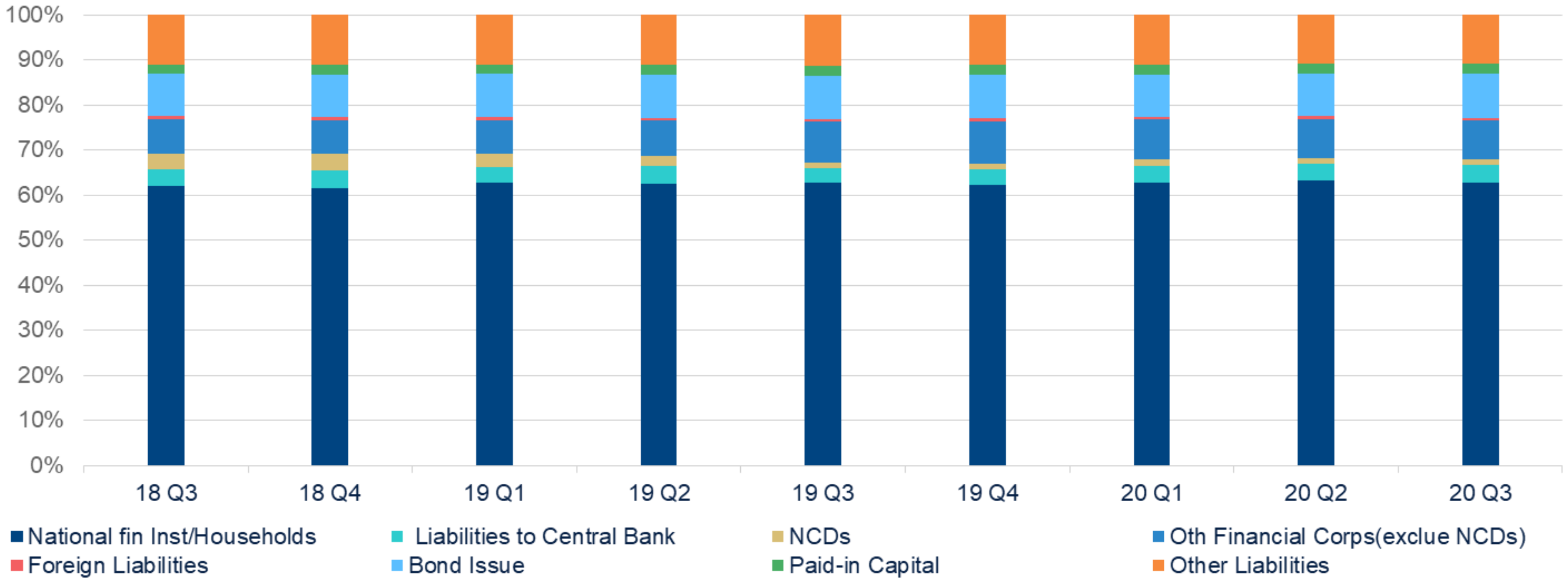
03

Shadow banking activities

Banks interconnectedness with the shadow banking system has increased moderately

Banks' fund dependence of shadow banking system has increased moderately

BREAKDOWN OF BANKS LIABILITIES

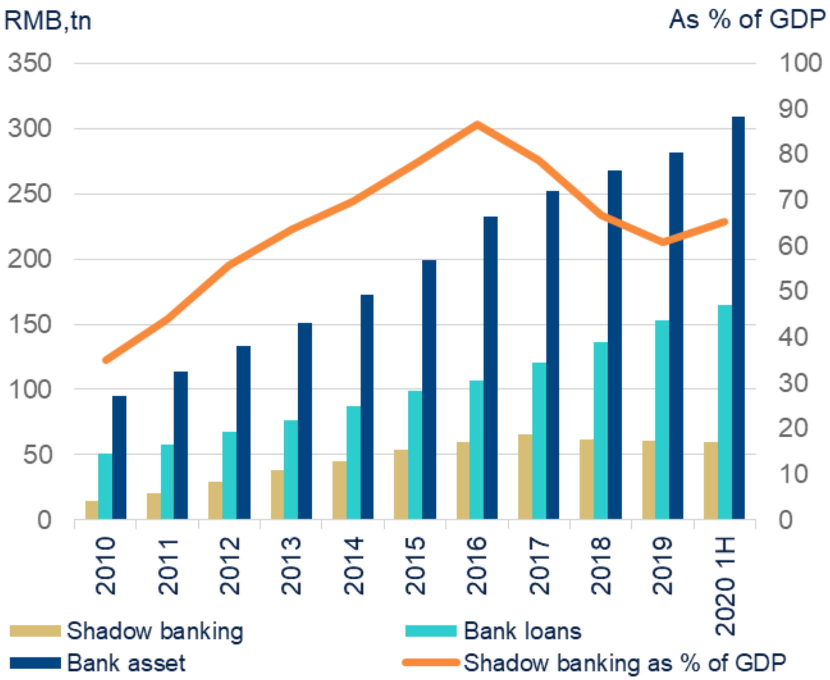


Source: Haver & BBVA Research.

Bank's reliance on shadow banking as funding source has rebounded to some extent this year, as the lower interest rate environment incentivized smaller banks to improve loan yields by funding non-bank financial institutions. However, the upside room is limited given policies continue to aim at reducing regulatory arbitrage through channel business and multi-layered transactions.

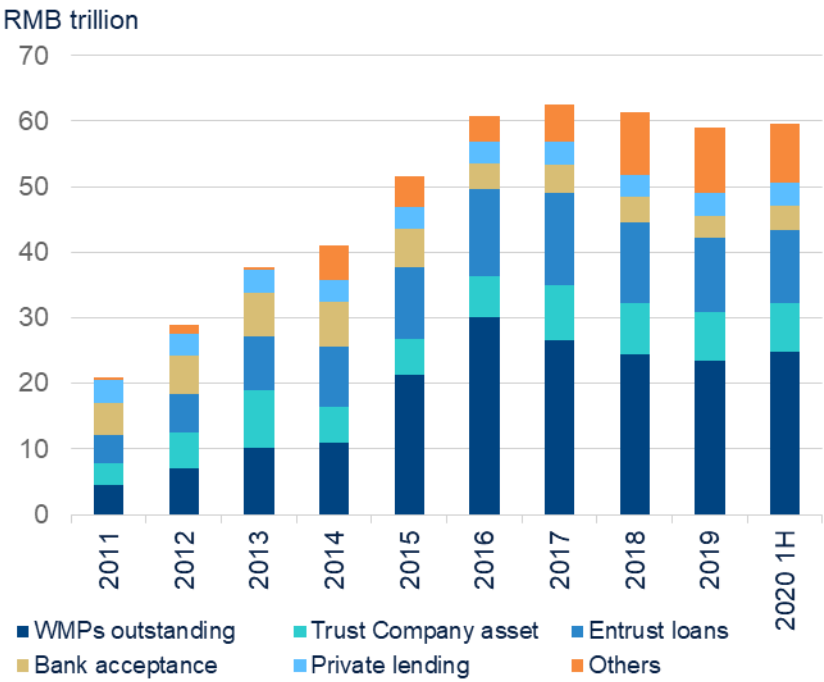
China provides temporary relief for shadow banking by delaying the implement of new asset management rules

SHADOW BANKING ASSETS AS % OF GDP PICKED UP



Source: CBRIC & BBVA Research.

THE INCREASE OF SHADOW BANKING SECTOR IS DRIVEN BY WMPS AND UNDISCOUNTED BANKERS' ACCEPTANCE

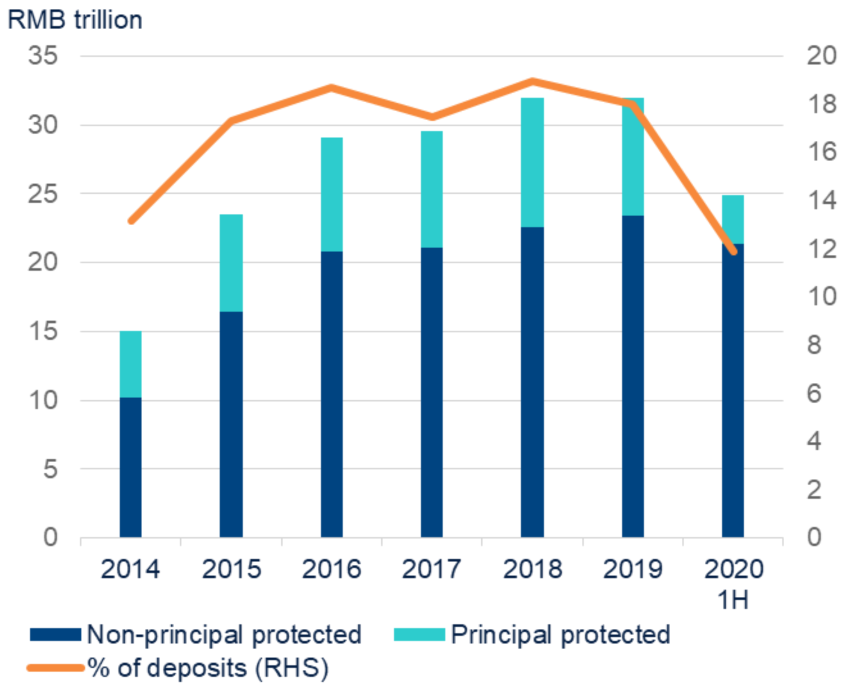


Source: CBRIC, China Banking Wealth Management Product Registration & Depository Center & BBVA Research.

The broad shadow banking assets rose to RMB 59.6 trillion in 1H 2020 from RMB 59 trillion in 2019, led by an increase in wealth management products and rising undiscounted bankers' acceptance. Financial deleveraging has loosened to some extent as the new asset management rules would be delayed by one year from the year end to the end of 2021.

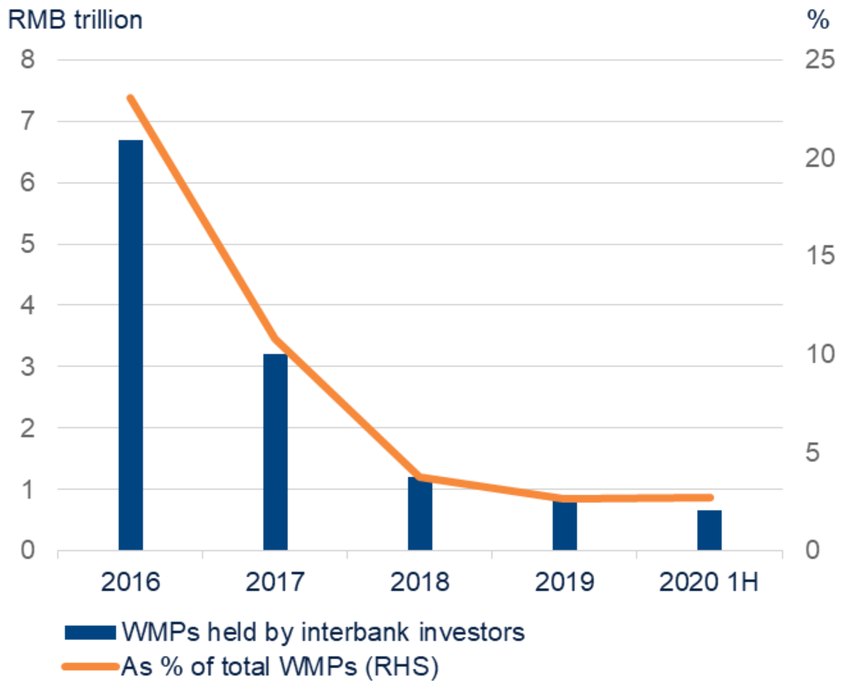
WMPs leads the rise in shadow banking, which act as a funding channel for regional banks

PRINCIPAL PROTECTED WMPS OUTSTANDING HAS FURTHER DECLINED



Source: Wind & BBVA Research.

OUTSTANDING BALANCE OF BANK WMPS HELD BY INTERBANK INVESTORS SHRANK FURTHER

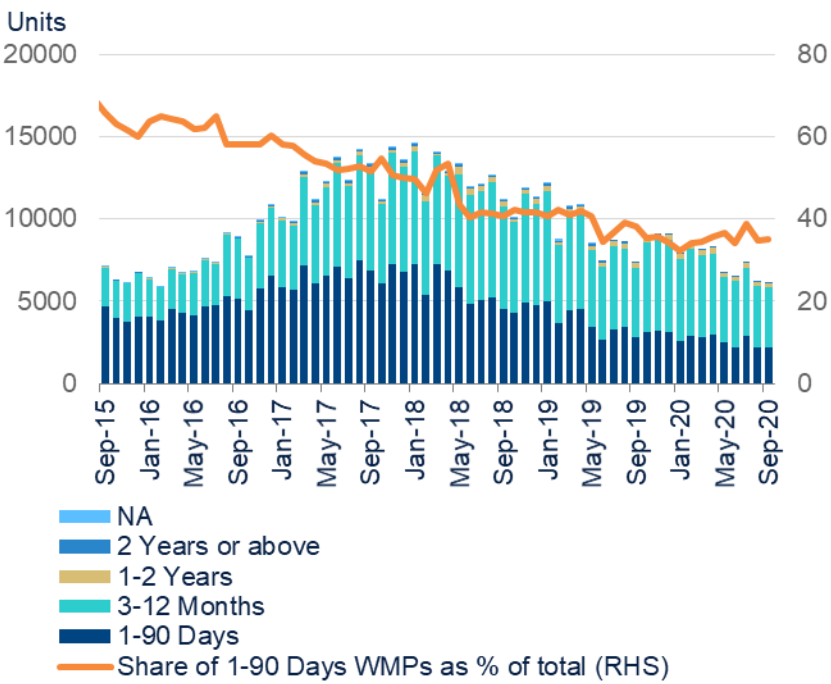


Source: Wind & BBVA Research.

Overall WMPs rose to RMB 24.9 billion in the 1H 2020,a slight recovery compared to RMB 23.4 trillion at the end of 2019, reflecting WMPs are acting as a funding channel for regional banks who are lack of capital. In contrast, principal protected WMPs distributed by banks and the outstanding balance of bank-issued WMPs purchased by interbank investors contracted further as a stricter regulatory scrutiny since 2017.

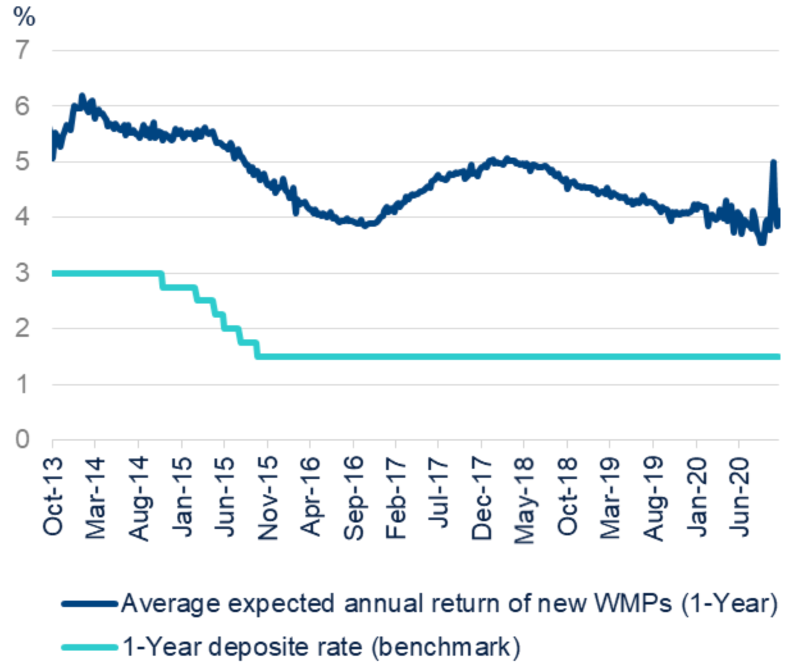
Proportion of short maturities WMP issuance rebounds

THE SHARE OF SHORT TERM WMPS REMAINED STABLE



Source: CEIC & BBVA Research.

AVERAGE EXPECTED ANNUAL RETURN OF NEW WMPS STILL HIGHER THAN THE BENCHMARK DEPOSITE RATE

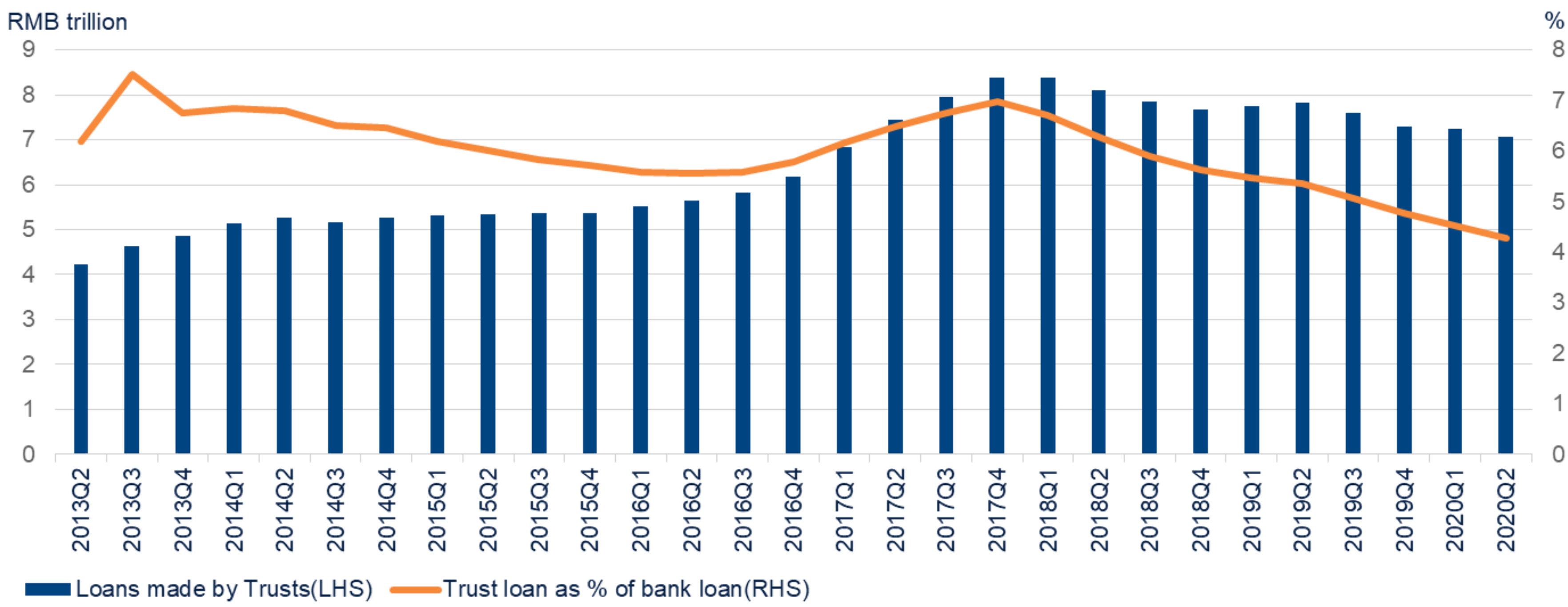


Source: CEIC, Haver & BBVA Research.

WMPs with short maturities (below 3 months) are rising, reflecting investors' preference for investments with higher liquidity and shorter maturities after the coronavirus outbreak, such as short-tenor WMPs or Money Market Funds(MMFs). Average expected annual return of new WMPs still higher than the benchmark deposit rate.

The declination of trust loans accelerated due to a tighter regulatory scrutiny and increasing number of defaults

TRUST COMPANY LOANS GROTH DECLINED

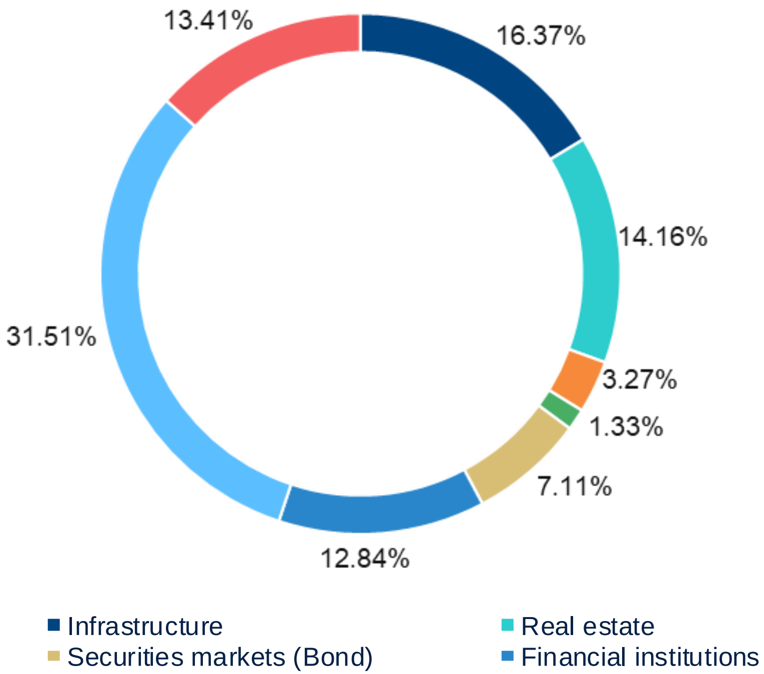


Source: China Trustee Association & BBVA Research.

Growth of outstanding trusts loans continued its downward trend in Q2 2020,but the pace has slowed as companies still rely on this channel to support their business recovery post coronavirus even under tight regulatory scrutiny. We expect this trend will continue in the rest of the year.

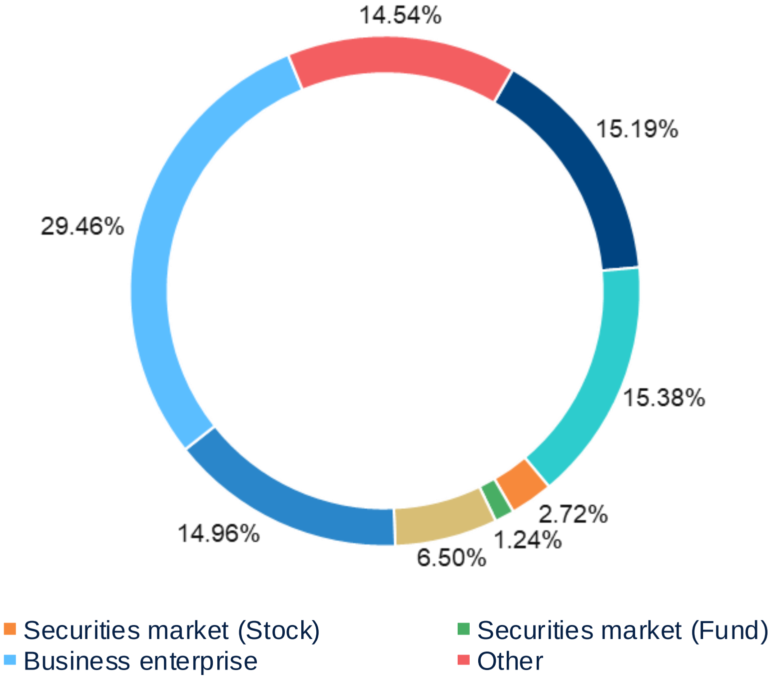
Trust assets continue to shift toward infrastructure and business enterprises

INFRASTRUCTURE AND REAL ESTATE SEEK TO TRUST ASSETS FOR FINANCING



2020 Q2

Source: China Trustee Association & BBVA Research.

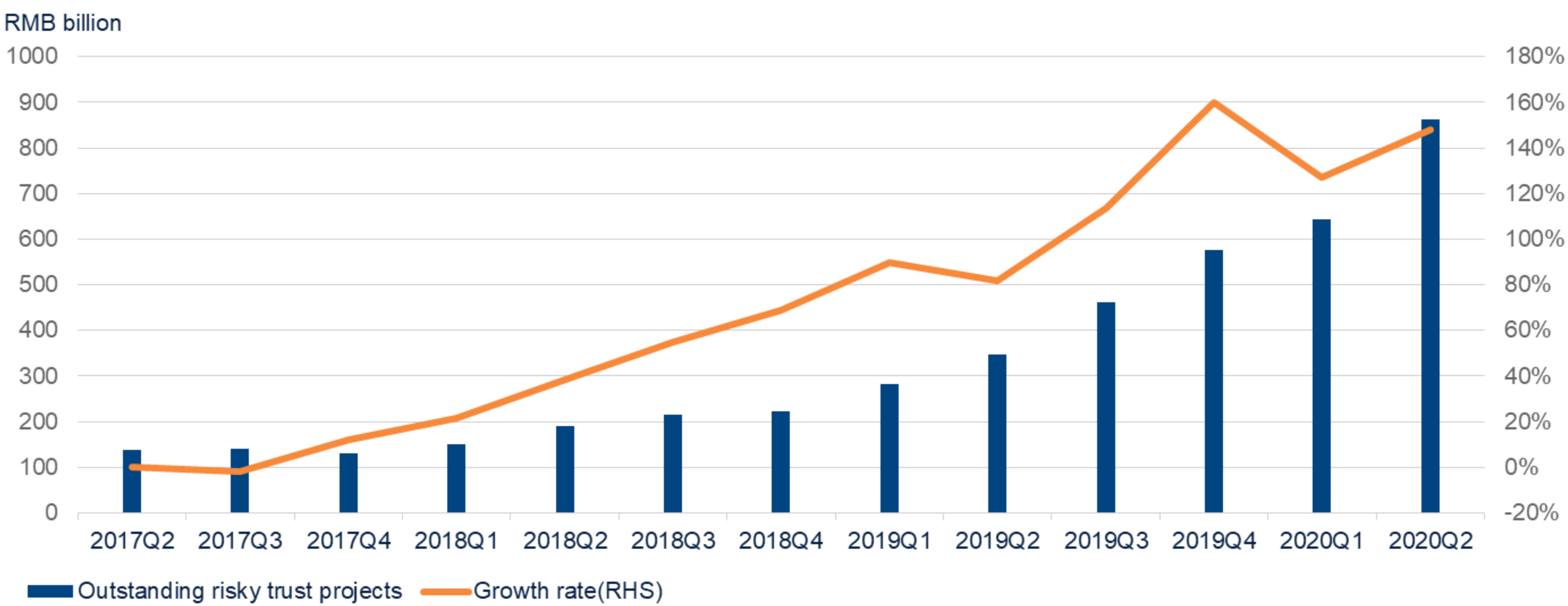


2019 Q2

Source: China Trustee Association & BBVA Research.

Trust loans to real estate shrink due to tightened regulatory scrutiny in trust funding to property developers, while trust loans to the infrastructure sector rise as continued policy support to infrastructure investment.

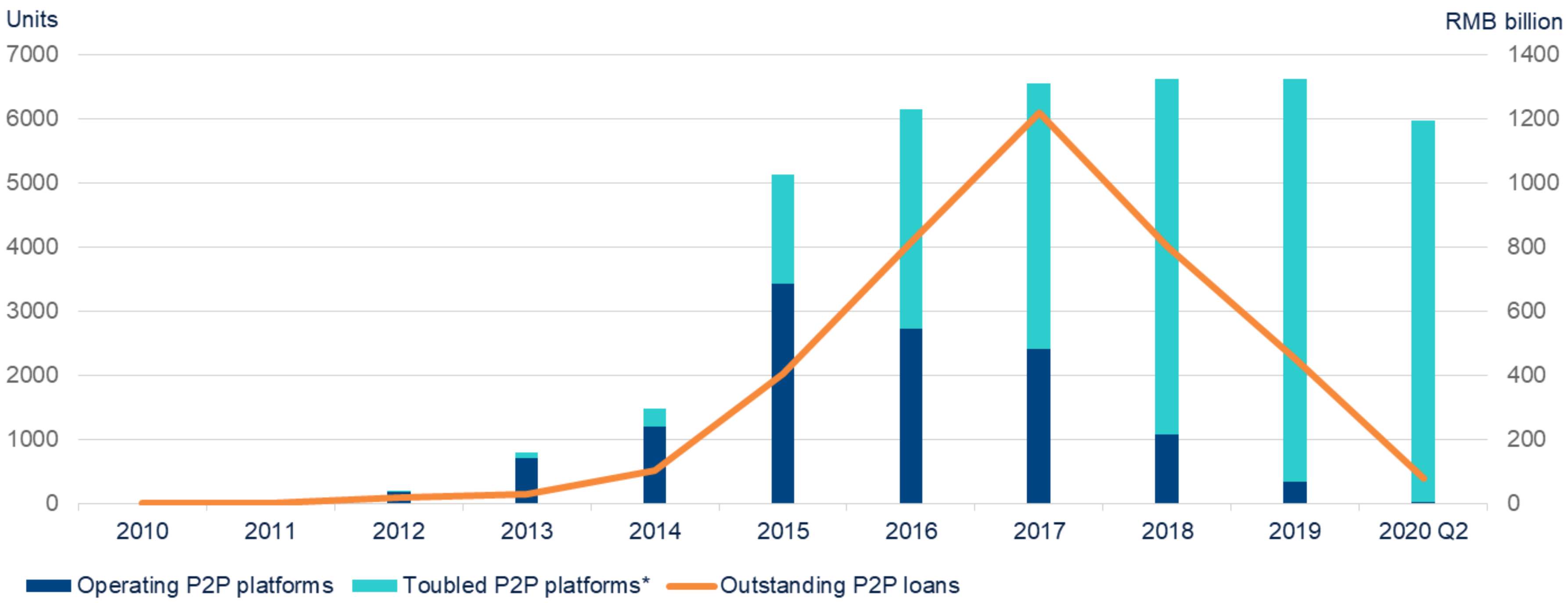
Default risks are rising for trust projects



Source: China Trustee Association & BBVA Research.

The total amount of trust assets classified as prone to default risks amounted RMB 861.3 billion at the first half of 2020,with their share to total trust assets rose to 4.9% in 1H 2020 from 2.7% in 2019. We expect this trend will continue and will accelerate amid a slowing economy for the rest of the year as trust borrowers' financial performance remains under pressure.

P2P lending tumbled as regulations tighten



Source: Wind & BBVA Research.

P2P lending has attracted more stringent regulatory oversight for its high default rates due to weak risk management and fraud. China's financial clean-up whittles thousands of P2P lenders down to just 29 by the end of 1H 2020 after a four-year crackdown.

Regulatory measures to curb shadow banking activities

Date	Key Regulatory Developments
Oct-19	CBIRC announces regulations to further supervise commercial banks' structured deposits business. The new regulations focus on clarifying the classification of structured deposits and strengthening banks' risk management practice.
Nov-19	PBOC and CBIRC publish for public comment a draft regulation to define domestic systemically important banks (D-SIBs) subject to increased supervision. Tightened supervision of China's larger banks helps reduce systemic risk and maintain financial system stability. The Internet Financial Risk Special Rectification Work Leadership Team and the Online Risk Special Rectification Work Leadership Team jointly issue a guidance on transformation of qualified P2P lending platforms into micro-credit companies. This will facilitate transformation of the industry and liquidation of weaker platforms.
Dec-19	CBIRC publishes pilot regulations on commercial banks' wealth management subsidiary companies, effective 1 March 2020. The regulations require these subsidiaries to maintain net capital (1) not below RMB5,000 million and not less than 40% of net assets, and (2) not lower than capital at risk. Regular regulatory reporting of net capital conditions are also required. PBOC releases a draft regulation for public opinion on forbidding agency services in receiving payments through certain channels, including P2P loans. The new regulation aims to mitigate third-party risks. CBIRC and PBOC publishes for public comment a draft regulation to step up supervision on banks' cash management type WMPs. The regulation focus on specifying the investment scope and strengthening liquidity and leverage requirements. This will impose on such type WMPs roughly the same thresholds for investment scope as for Money Market Funds (MMFs).
Jan-20	CBIRC issues a consultation paper strengthening regulations for commercial leasing companies. The regulations focus on specifying business scope of commercial leasing companies, and tightening requirements on capital adequacy.
Mar-20	PBOC announces regulations to supervise structured deposits' offered returns, in particular their guaranteed yields. The new regulations target to ensure that the structured products' rates truly reflect their underlying risks. This will prevent banks from offering some non-structured products with high guaranteed yields to attract funding.
May-20	CBIRC releases a draft regulation for public opinion on strengthening regulations regarding trust companies' management of their trust funds. The strengthening would focus on limiting funds trusts' investment scale on non-standardized debt assets, promoting transformation of trust companies. CBIRC issues regulations to further supervise pawn shop business. The new regulations guide pawn shops to focus on short-term lending to MSEs and households,and prevent inter-lending among pawn shops or any fund raising activities.
Jul-20	The CBIRC announced that the implementation time of the new asset management regulations will be postponed by one year from the end of 2020 to the end of 2021.This new regulation was announced in Aprial 2018 and aims to eliminate explicit and implicit guarantees for investors when banks issue wealth managment products.
Aug-20	The supreme People's court revised the upper limit of judicial protection for private lending interest rates,stipulating that the upper limit of private lending interest rates between individuals and small businesses is four times the one-year benchmark LPR.This will help rectify private lending,including financial leasing,small loans,pawnshop loans and P2P online loans.
Sep-20	The State Council and the People's Bank of China issued new regulations on financial holding companies.According to the new regulations,all financial holding companies will need to obtain approval from the Central Bank,and the paid-in registered capital shall not be less than RMB 5 billion.New regulations aim to regulate the management of financial holding companies and contrl the contagion risks in the financial system.

Source: Moody & BBVA Research.

Disclaimer

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